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IN THE

Supreme Court of the United States

No. 75-1434

October Term, 1975

WALLACE CLARK & CO., INC.,

Petitioner,

v.

ACHESON INDUSTRIES, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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TABLE OF CONTENTS

	Page
Opinions Below	1
Jurisdiction	2
Questions Presented	2
The Nature of the Case	2
Reasons for Granting the Writ	5
1. The Decisions of the Courts Below are Confusing with Respect to an Important Issue of Public Policy	5
2. Res Judicata Should Not Apply Unless there is an Adjudication of Patent Validity on the Merits	9
3. The Decision of the Court Below Encourages Nuisance Settlements	10
4. Consent Decree Res Judicata does not Require Early Patent Attack	11
5. Consent Decree Estoppel is Subject to the Same Infirmities as Licensee Estoppel	12
Conclusion	13
Appendix	A1

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TABLE OF AUTHORITIES

Case *Page*

Addressograph-Multigraph Corporation v. Cooper, 156 F.2d 483 (2 Cir. 1946) 8, 9

Blonder-Tongue Laboratories v. University of Illinois Foundation, 402 US 313 (1971) 10

Butterfield v. Oculus Contact Lens Corp., 332 F.Supp. 750, 760 (N.D.Ill. 1971) 6

Crane v. Aeroquip Corp., 504 F.2d 1086 (7 Cir. 1974) . 8

General Electric Co. v. Hygrade Sylvania Corp., 61 F.Supp. 476, 491-492 (SDNY 1944) 12

Herbert Rosenthal Jewelry Corp. v. Kalpakin, 446 F.2d 738, 739-40 (9 Cir. 1971) 6

Kraly v. The National Distillers and Chemical Corp., 319 F. Supp. 1349 (N.D. Ill. 1970); 502 F.2d 1366 (7 Cir. 1974) 6, 8

Lear v. Adkins, 395 US 653 (1969) 5, 6

Mercoid Corporation v. Mid-Continent Investment Company, 320 US 661, 670 (1943) 9

Rialto Products, Inc. v. Rayex Corp., 166 USPQ 222 .. 6

Schlegel Manufacturing Co. v. USM Corp., — F.2d —, 187 USPQ 417 (6 Cir. 1975) 6

USM Corporation v. Standard Pressed Steel Co., — F.2d—, 188 USPQ 52 (7 Cir. 1975) 8

Statutes

§1254 of Title 28 of the United States Code 2

Secondary Authority

"To Bind or Not to Bind: Bar and Merger Treatment of Consent Decrees in Patent Infringement Litigation", 74 Colum. L. Rev., 1322, 1330-1331, fn 60 (Nov. 1974) 11

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WALLACE CLARK & CO., INC.,
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v.

ACHESON INDUSTRIES, INC.,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner, Wallace Clark & Co., Inc. respectfully prays that a Writ of Certiorari be granted to review the Judgment of the United States Court of Appeals for the Second Circuit entered in this cause on March 26, 1976 (A1).

OPINIONS BELOW

The District Court's opinion granting partial summary judgment is reported at 394 F.Supp. 393 (S.D.N.Y. 1975) is printed at A-11 and on reconsideration, —F. Supp.—, 187 USPQ 57, at A-32.

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The decision of the Second Circuit Court of Appeals, filed March 26, 1976 is printed at A3.

JURISDICTION

The Court's jurisdiction is invoked under §1254 of Title 28 of the United States Code. This petition is filed within 90 days of the Judgment of the Court of Appeals.

QUESTIONS PRESENTED

1. Does a patent licensee have the right to contest the validity of its licensor's patent where, in an earlier action between the parties the court had entered, pro forma, a consent decree adjudicated the validity of the patent and one particular product as infringing?

2. Is it contrary to the public interest to estop a party to a consent decree from challenging the validity of a patent in a contract action for royalties under a license, as opposed to a contempt proceeding?

3. Should consent judgments adjudicating patent validity be granted?

The issues presented are closely related to those in the petition for certiorari in *Schlegel Manufacturing Company v. USM Corporation,* 75-1134 now pending before this Court. The difference is that in *Schlegel,* the issue arose as a result of a contempt proceeding, whereas this issue here arose in a contract suit for royalties, and not a contempt proceeding.

THE NATURE OF THE CASE

This action was brought by petitioner, Wallace Clark, as declaratory judgment plaintiff in the Southern District of

New York to determine whether it had the right to challenge validity as a defense to a claim for royalties under the license agreement.

The action below is the third action between Wallace Clark and Acheson involving issues of validity and infringement of Acheson's Patent No. 2,976,257. The first action was instituted by Wallace Clark in December of 1971 in the Southern District for declaratory judgment of invalidity of Acheson's patent and its noninfringement by Wallace Clark's manufacture and sale of its product Meta-Tef 530 and other products. That action was settled by the parties entering into a settlement agreement (A54), in which Acheson required Wallace Clark to enter into the subject consent decree (A62).

Paragraph 17 of this agreement reads (A59):

> "Promptly following the execution of this agreement the LICENSEE and LICENSOR agree to secure the dismissal of Civil Action No. 71-5655 in the United States District Court for the Southern District of New York in accordance with the terms of the attached Appendix A dismissal document."

The subject decree (A62) was submitted to and was routinely signed. The decree provided that the patent was valid and infringed by only one product, the "530" compound (A62, par. 1) and the action was dismissed.

Wallace Clark made all the royalty payments required for the years 1972 and 1973 and then discontinued to make the specific Meta-Tef 530 product (the only product involved in the consent decree). On January 1, 1974 Wallace Clark discontinued paying the minimum royalty. As of January, 1974 Wallace Clark was in the position of being required to pay a minimum royalty for sales of products outside of the decree and the patent.

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In April of 1974, Acheson filed an action in the Michigan State Circuit Court against Wallace Clark for royalties due (A64) and Wallace Clark counterclaimed for declaratory judgment that it had the right to contest validity and allege invalidity and noninfringement as a denial to Acheson's claim for royalty.

In June of 1974, Wallace Clark brought this action in the Southern District for declaratory judgment alleging the same claims as the defenses and counterclaims in the Michigan action. (A48)

With suits 'pending in both Michigan and in the Southern District involving the same issues, Wallace Clark moved in the Michigan court for summary judgment as to its right to allege invalidity and non-infringement as defenses to the contract claim for royalties. Simultaneously, Acheson moved for a stay in the Southern District and Wallace Clark cross moved, for a determination of its right to allege invalidity and noninfringement as defenses to the claim for royalties.

While these motions were pending before Hon. Edward Weinfeld, the Michigan Circuit Court, Hon. Blair Moody, Jr., ruled in favor of Wallace Clark as to the merits in an opinion dated October 3, 1974 and in an opinion on reconsideration dated November 29, 1974 (A38) (reported 184 USPQ 497). Judge Moody's decisions are premised primarily on the impact of *Lear v. Adkins*, 395 US 653 and secondarily on the ground that the consent decree was specifically worded to preclude using it as an adjudication of contested issues. He construed it as nothing more than an order granting a stipulated dismissal (A43).

Acheson requested leave to appeal which Judge Moody granted (A47), but then Acheson decided to withdraw its appeal and proceed in the Southern District below.

Wallace Clark was also willing to litigate and have the ultimate issues of validity and infringement resolved in the Southern District.* Wallace Clark then stipulated to a dismissal of the Michigan action without prejudice.

Judge Weinfeld, being informed of the dismissal, then proceeded to rule on the merits and rendered his opinion April 28, 1975 granting partial summary judgment (A11). Wallace Clark then moved for reconsideration and for leave to appeal on the issue as to whether the *res judicata* holding operated as a bar to any defense to the claim for minimum royalties in a contract suit.

Judge Weinfeld's second opinion, of July 21, 1975 (A32), limited Wallace Clark's right to appeal only to the issue whether a consent decree barred the right of a licensee to raise the defense of invalidity. The issue on appeal was presented to and affirmed by the Court of Appeals as one of law.

This issue is now presented to this Court.

REASONS FOR GRANTING THE WRIT

1. The Decisions of the Courts Below are Confusing with Respect to an Important Issue of Public Policy

The question as to whether *Lear v. Adkins*, 395 US 653 (1969) extends beyond license agreements to settlement

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*Wallace Clark is a small company having offices in New York City and nearby New Jersey. Its counsel's office is in New York City. Wallace Clark thought that it was desirable to proceed in the Southern District in New York because it was more economical, had experienced judges in patent matters, and further because of its liberal rules of discovery which facilitate the proof of the defenses relating to patent invalidity. That was the reason for the original declaratory judgment action.

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agreements or consent decrees has not been decided by this Court. *Lear* was interpreted by this Court in *Blonder-Tongue Laboratories, Inc. v. University of Illinois* (402 US 313 at 346) as being without any limitations:

> "Lear permits an accused infringer to accept a license, pay royalties for a time, and cease paying when financially able to litigate, secure in the knowledge that invalidity may be urged when the patentee licensor sues for unpaid royalties."

Under *Blonder-Tongue* it would appear that petitioner, Wallace Clark, as a licensee has the right to challenge the validity of the patent, but the Second Circuit held that the consent judgment worked as estoppel.

Until the decisions in *Schlegel Manufacturing Co. v. USM Corp.*, — F.2d —, 187 USPQ 417 (6 Cir. 1975) by the Sixth Circuit and the decision below, the Seventh Circuit had taken the lead in deciding the underlying issues. The Ninth Circuit had expressly left the issue open. *Herbert Rosenthal Jewelry Corp. v. Kalpakin*, 446 F.2d 738, 739-40 (9 Cir. 1971).

In *Kraly v. The National Distillers and Chemical Corp.*, 319 F. Supp. 1349 (N.D.Ill. 1970) Judge Will held that *Lear* extended to settlement agreements.* This decision was referred to by this Court in *Blonder-Tongue*, 402 US at 345, fn 43, we think, with approval. New York law also provides that *Lear* extends to settlement agreements. *Rialto Products, Inc. v. Rayex Corp.*, 166 USPQ 222 (no official citation).

In *Butterfield v. Oculus Contact Lens Corp.*, 332 F.Supp. 750, 760 (N.D.Ill. 1971), affirmed — F.2d —, 177

* A recent decision of the Sixth Circuit holds contra, that settlement agreements are res judicata. *Aro Corp. v. Allied Witan Co.*, —F.2d—, (6 Cir. March 25, 1976), reported 272 Patent Trademark & Copyright Journal, page A1, April 1, 1976.

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USPQ 33, the lower court extensively discussed the issues for which we seek certiorari:

> "Neither the Supreme Court nor our Circuit has had occasion to consider the question of estoppel by agreement or consent judgment post-*Lear*. We have done so, however, in *Kraly v. National Distillers & Chemical Corp.*, 319 F.Supp. 1349 (N.D. Ill. 1970). As discussed there, the value judgment involved concerns two public policies: (1) the undesirability, discussed in *Lear*, of having licensees and the public pay royalties to one who does not have a valid patent; and (2) the desirability of encouraging settlements of lawsuits. We concluded in *Kraly* that the former outweighed the latter. That conclusion seems even more appropriate here. In the consent judgment entered in the Oregon case, the plaintiffs acknowledged the validity of the *Butterfield* patent and the defendants acknowledged the validity of the Tuohy patent. If all were estopped from challenging the validity of both patents, the result would be that the parties having the greatest economic interest in the patents would be foreclosed from ever asserting their invalidity. If Plastic's licensees are likewise estopped, as plaintiff contends, then the likelihood of anyone ever challenging either patent is even more materially reduced. While we do not suggest that there was any collusion in the consent judgment here involved, the potential for abuse is obvious and the public damage which could result is equally apparent.
>
> "We see no reason why the public should be exposed to paying royalties on an invalid patent. *For this reason, we have consistently in the past refused to sign consent decrees or judgments in patent cases containing a finding* that the patent involved was valid or that it had been infringed by the defendant. We believe that the validity of a patent should not be removed from challenge by

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> agreement of parties who have an economic interest in it by virtue of being its owner or a licensee under it. As we read *Lear*, as well as the implications of *Blonder Tongue Laboratories, Inc. v. University of Illinois Foundation et al.*, 402 U.S. 313, 91 Ct. 1434, 28 L.Ed. 2d 788 (1971), the public interest is the paramount consideration." [Emphasis ours]

In *Crane v. Aeroquip Corp.*, 504 F.2d 1086 (7 Cir. 1974), a first patent infringement suit terminated in a consent decree and in which the defendant entered into an exclusive license agreement. 504 F.2d at 1088. We submit that this form of settlement and decree did much more than determine the hypothetical question of validity. However, the Court of Appeals stated:

> "Defendant was within its rights to test validity after entering into the consent judgment of validity."

On the merits, the Court held the patent to be valid. But the judgment of the Court did nothing more than to state that the accused devices were within the exclusive license. This was exactly what had been determined by the consent judgment previously. The important point in *Crane* is that the consent judgment did not bar an attack on the validity of the patent.

Thus, decisions in *Butterfield, Crane* and *Kraly.** provided support for holding that consent judgments were not to be treated differently than settlement agreements or license agreement. However the Seventh Circuit in a recent decision, *USM Corp. v. Standard Pressed Steel Co.*, — F.2d—, 188 USPQ 52, 54 (7 Cir. 1975) construed its own decisions as leaving the issues unresolved under the dictum in *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483 (2 Cir. 1946).

*See 319 F.Supp. 1349 and on appeal, 502 F.2d 1366, 1368-1369, fn. 3.

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The decisions in the Seventh Circuit reveal the inadequacies of premising res judicata by including a mere recitation of infringement in a consent judgment.

We submit that certiorari should be granted to resolve the issues as to whether *Lear* applies to license agreements entered into after litigation commences, when accompanied by a settlement agreement or consent judgment.

2. Res Judicata Should Not Apply Unless There is an Adjudication of Patent Validity on the Merits

While a consent judgment is more than a mere agreement between the parties, *res judicata* always yields to considerations of public policy. *Mercoid Corporation v. Mid-Continent Investment Company*, 320 US 661, 670 (1943).

The conflict between *res judicata* and the public interest arose early in patent cases, appearing in *Addressograph-Multigraph v. Cooper*, 156 F.2d 483, 485 (2 Cir. 1946). In *Addressograph-Multigraph* the Second Circuit recognized the special circumstances attendant to consent decrees and noted that the doctrine of *res judicata* is limited by the public policy against monopoly. The Court said at page 485:

> "But, logic notwithstanding, it does not follow that to hold a patent invalid if it is not infringed, is also to decide a hypothetical case. The reason for this is the importance to the public generally that an invalid patent should not remain in the art as a scarecrow.

In *Addressograph-Multigraph*, the Second Circuit only decided that a consent decree which merely decided validity did not estop a party from later contesting validity.

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Foreshadowing the problems involved in licensee estoppel and consent decrees, the Second Circuit then compromised. It held that either an adjudication of infringement or a grant of relief was required. A distinction was drawn in that a holding of validity is a hypothethical matter whereas a holding of validity and infringement is an actual adjudication. This compromise is questionable for reasons set forth in Judge Clark's dissent in *Addressograph*, particularly in a non-contempt situation.

If the distinction in *Addressograph* remains as valid, then the problem resolves itself merely to correct draftsmanship to give a consent decree res judicata effect.* A judge does nothing more than put his signature on a consent judgment; there is no exercise of judicial decision making as to validity or infringement. Such draftsmanship has no correlation with advancing any public policy.

3. The Decision of the Court Below Encourages Nuisance Settlements

This Court has recognized that financial burdens are imposed in litigating a patent suit when a businessman is least able to defend one (*Blonder*, 402 US at 334-336) and the "nuisance settlements" that are prevalent (*Blonder*, 402 US at 342). In *Blonder*, this Court, referring to Senate testimony, took note of nuisance settlements (402 US at 342):

> "These nuisance settlements, although distasteful, are often, under the present system, justified on pure economics.
>
> "In many instances the very survival of the small

* A recital that one product infringes a single claim, whether it be a broad and important claim, or a very narrow detailed claim becomes sufficient.

> businessman may be at stake. His cost of fully litigating a claim against him can seriously impair his ability to stay in business."

Consent decree estoppel, as part of a nuisance settlement is no minor matter. It is estimated that 72% of all patent cases between 1949 and 1958 were disposed of by consent. The disparity as to validity between the consented to and the contested disposition on the merits is great. See *"To Bind or Not to Bind: Bar and Merger Treatment of Consent Decrees in Patent Infringement Litigation"*, 74 Colum. L. Rev. 1322, 1330-1331, see also fn 60 (Nov. 1974).

The financially strong have an advantage in procuring patents, as well as forcing settlements. With the test of patent validity now established to be a severe one, and with licensee estoppel put to rest, and with settlement agreements having the same status as license agreements, the only artificiality left to protect an invalid patent is consent decree estoppel if permitted by this Court. The incentive to litigate before licensing should not be ignored.

We submit that only patents which meet Constitutional and Congressional standards may be legitimate monopolies because of the nature of the public interest and the Constitutional mandate. Consent decrees do not allow for a different standard.

4. Consent Decree Res Judicata Does not Require Early Patent Attack

The *Schlegel* court also reasoned that the consent decree, if given *res judicata* status, would allow an infringer to forego attack until favored by a stronger financial position. Yet, this is the very problem to which *Lear* ad-

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dressed itself. Licensees frequently take a license at a time when they are economically weak, just starting in the manufacture of a product, or starting a new business in the face of an entrenched patentee with more economic resources.

Licensees, as a class or individually, become stronger with the passage of time and commercial success. The assumption is made in *Lear* that the economic incentive to challenge validity ripens with time. While *Lear* was premised on the assumption, it is rejected in *Schlegel.* In this respect the policy expressed by this Court conflicts with that of the Sixth Circuit. Further, the economic consequences resulting in higher consumer prices expressly noted in *Blonder,* 402 US at 346 were virtually ignored by the *Schlegel* court and the court below.

5. Consent Decree Estoppel is Subject to the Same Infirmities as Licensee Estoppel

Lear recognized that the doctrine of contract estoppel was "radically" weakened by the introduction of prior art to limit claims, introducing legal incongruities, 395 US at 665. Yet, prior art may be introduced for the same purpose, notwithstanding a consent decree. *General Electric Co. v. Hygrade Sylvania Corp.*, 61 F.Supp. 476, 491-492 (S.D.N.Y. 1944). It was this application of prior art which broke the slender reed of licensee estoppel. But the *Lear* incongruities and problems which were put to rest with the abolition of licensee estoppel, rise again in consent decree estoppel.

The distinctions (1) between a consent judgment which determines validity but not infringement as opposed to one which determines validity and infringement, or (2) between

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a consent judgment which might be binding and a settlement agreement which may not be binding, are matters of form. Further the use of prior art to show that the alleged infringement merely tracks what is old, as opposed to the use of prior art against validity, as well as the uncertainty as to the tests of infringement in license or contempt situations where validity is artificially determined by consent, cannot be satisfactorily compromised.

These distinctions are subject to the same frailty as in *Lear:*

> "The result has been a failure. Rather than create a compromise there has been a chaos of conflicting case law proceeding on inconsistent premises." See *Lear v. Adkins,* 395 US 653 at 668.

The heart of the problem is that a Court does not make an adjudication on the merits. It acts upon the stipulations of counsel; the public interest in consent decrees is never examined with the scrutiny and intensity required in an adjudication applying the standards of patentability. In fact, the standards are not applied at all.

CONCLUSION

It is respectfully requested that this Petition be granted for the reasons stated. An important issue of law should be finally resolved.

Respectfully submitted,

Paul H. Blaustein
Hopgood, Calimafde, Kalil,
Blaustein & Lieberman
Attorneys for Petitioner

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ORDER OF UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT MADE MARCH 26, 1976

UNITED STATES COURT OF APPEALS
For The
SECOND CIRCUIT

At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse in the City of New York, on the twenty-sixth day of March one thousand nine hundred and seventy-six.

Present: HON. J. EDWARD LUMBARD,
HON. J. JOSEPH SMITH,
HON. WALTER R. MANSFIELD,
Circuit Judges.

Wallace Clark & Co., Inc.,
Plaintiff-Appellant.

v.

75-7483

Acheson Industries, Inc.,
Defendant-Appellee.

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said

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District Court be and it hereby is affirmed in accordance with the opinion of this court with costs to be taxed against the appellant.

A. DANIEL FUSARO
Clerk

By: VINCENT A. CARLIN
Chief Deputy Clerk

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT
No. 526—September Term, 1975.

(Argued January 9, 1976 Decided March 26, 1976.)
Docket No. 75-7483

WALLACE CLARK & CO., INC.,
Plaintiff-Appellant,

v.

ACHESON INDUSTRIES, I.,
Defendant-Appellee.

Before:
LUMBARD, SMITH and MANSFIELD,
Circuit Judges.

Appeal from partial summary judgment entered by the United States District Court for the Southern District of New York, 394 F. Supp. 393 (S.D.N.Y. 1975), Edward Weinfeld, *Judge,* denying a patent licensee the right to contest the validity of its licensor's patent where, in an earlier action between the parties, the court had already adjudicated the validity and the infringement of the patent in a consent decree.

Affirmed.

Paul H. Blaustein, New York, N.Y. (Hopgood, Calimafde, Kalil, Blaustein & Lieberman, New York, N.Y.), *for Appellant.*

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Michael R. Dinnin, Birmingham, Mich. (Harness, Dickey & Pierce, Birmingham, Mich.) and J.G. Foley, New York, N.Y. (Pennie & Edmonds, New York, N.Y.), on the brief, *for Appellee.*

SMITH, *Circuit Judge:*

Wallace Clark & Company ("Wallace Clark") appeals from a partial summary judgment entered by the United States District Court for the Southern District of New York, Edward Weinfeld, *Judge,* denying Wallace Clark the right to contest the validity of the patent underlying its licensing agreement with Acheson Industries ("Acheson"), the defendant and the holder of the patent, where, in an earlier action between the parties, the court had already adjudicated the validity and the infringement of the patent in a consent decree. We affirm.

In November of 1971, Wallace Clark instituted an action against Acheson in the United States District Court for the Southern District of New York, John M. Cannella, *Judge,* seeking a declaratory judgment that Acheson's patent No. 2,976,257 was invalid and that it was not infringed by the plaintiff's product Meta-Tef 530. The case was resolved without a trial. Instead, a licensing agreement was executed allowing Wallace Clark to manufacture and sell certain products under the claims of Acheson's patent through March 21, 1978, in return for the licensee's payment of royalties. In addition, pursuant to the agreement, the parties entered into a consent decree stipulating to both the patent's validity and its infringement by Meta-Tef 530. The decree was duly ap-

proved and entered by the district court in October of 1972.[1]

In June of 1974, the instant action was brought by Wallace Clark for declaratory relief and damages after the plaintiff was sued by Acheson in a Michigan state court for royalties owing under their licensing agreement. The third "cause of action" asserted by the complaint in the federal proceeding sought an adjudication of the invalidity of the patent underlying the licensing agreement, and Wallace Clark promptly moved for a ruling that, notwithstanding the 1972 consent decree, it had the right to assert this claim. Treating this motion as for summary judgment with respect to the complaint's third cause of action, Judge Weinfeld ruled that the patent's validity was res judicata, 394 F. Supp. 393 (S.D.N.Y. 1975), and accordingly directed the entry of a final judgment dismissing the cause of action after certifying pursuant to Fed. R. Civ. P. 54(b) the absence of any just reason for delay.

The principal issue presented by this appeal is whether a consent decree adjudicating the patent's infringement as well as its validity bars a party to the decree from subsequently challenging the validity of the patent. As a general rule, consent decrees are accorded res judicata effect. *E.G., United States v. Southern Ute Indians*, 402

1. The consent decree states:

As between the parties, by their counsel stipulating hereto, and the Court being fully advised in the matter, it is hereby ordered and decreed as follows:

1. United States Letters Patent 2,976,257 in suit is valid and is infringed by plaintiff's manufacture, use and sale of its product Meta-Tef 530.

2. The plaintiff having taken a license under defendant's United States Letters Patent 2,976,257, the above-entitled action is hereby dismissed, with each party to bear its own costs and attorney fees.

3. This decree may not be cited as an adjudication of contested issues, nor be used for advertising purposes.

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U.S. 159 (1971); *Siegel v. National Periodical Publications, Inc.*, 508 F.2d 909, 913 (2d Cir. 1974); 1B Moore, *Federal Practice* ¶0.409[5], at 1032 (2d ed. 1974). In *Addressograph-Multigraph Corp. v. Cooper*, 156 F.2d 483 (2d Cir. 1946), however, this court ruled that a party to a consent decree adjudicating the validity but not the infringement of a patent is not barred from contesting the patent's validity in a subsequent suit.[2] This decision was predicated on the rationale that the validity of a patent is apt to be too readily conceded by a party not found to have infringed it. 156 F.2d at 484-85. Consistent with this rationale, *Addressograph* indicates in dictum that, when accompanied by an adjudication of infringement, a consent decree's adjudication of a patent's validity should be accorded res judicata effect:

> [I]n a decree, at least in one entered by consent, either an adjudication of infringement, or a grant of some relief from which infringement may be inferred, is essential before any effect of res judicata can be given to it on the issue of validity.

156 F.2d at 485.

Wallace Clark contends that this dictum did not survive *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). In *Lear* the Supreme Court overruled the contract doctrine of licensee estoppel, under which a patent licensee had been barred from contesting the validity of the patent underlying its license. The Court justified its abrogration of the doctrine on the need to prevent unwarranted insulation of patents from judicial scrutiny and on its belief that often only licensees have sufficient incentive to challenge the validity of patents. 395 U.S. at 670-71.

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2. See also, *e.g.*, *USM Corp. v. Standard Pressed Steel Co.*, — F.2d —, —, 188 U.S.P.Q. 52, 54 n. 1 (7th Cir. 1975), and cases cited therein.

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In *Broadview Chemical Corp. v. Loctite Corp.*, 474 F.2d 1391 (2d Cir. 1973), this court observed that it had been presented with "no authority for [the] extension of *Lear* to the consent decree cases where there has been a prior adjudication of infringement." 474 F.2d at 1394. This situation still obtains. Although at the time of the decision below support for such an extension of *Lear* could be found in the Seventh Circuit, *e.g.*, *Kraly v. National Distillers & Chemical Corp.*, 502 F.2d 1366, 1369 (7th Cir. 1974) (dictum); *USM Corp. v. Standard Pressed Steel Co.*, —— F. Supp. ——, 184 U.S.P.Q. 52 (7th Cir. 1975), subsequently this support has been eroded by the opinion in the latter case on appeal, ——F.2d —— at ——, 188 U.S.P.Q. at 54, which states:

> The question . . . whether a consent judgment adjudicating infringement as well as validity bars a party to the judgment from subsequently challenging the validity of the patent, has not been decided by this court. . . .

Only the Sixth Circuit appears to have ruled definitvely upon the issue before us. In *Schlegel Manufacturing Co. v. USM Corp.*, — F.2d —, 187 U.S.P.Q. 417 (6th Cir. 1975), a corporation was barred in a contempt proceeding from contesting the validity of a patent because it had previously entered into a consent decree adjudicating both the patent's validity and its infringement. Wallace Clark contends that the fact that *Schlegel* was an appeal from a contempt proceeding distinguishes it from the instant case which was brought as a declaratory judgment action; however, *Schlegel's* extended discussion of the res judicata issue provides no support for this argument. — F.2d at —, 187 U.S.P.Q. at 419-22.[3]

3. Some courts have emphasized the contempt posture of the cases before them in granting res judicata effect to consent decrees adjudicating patent validity and infringement. *E.G.*, *United States ex rel. Shell Oil Co. v. Barco*

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We conclude that the interest of litigants and the public in general will be best served by according res judicata effect to consent decrees adjudicating a patent's infringement as well as its validity. While in some cases this policy may result in the survival of invalid patents, the agreements are arrived at in settlement of adversary litigation with infringement as well as validity determined and with the discovery machinery of the courts available to the parties, and are subject to court scrutiny, in contrast to the purely private license agreements on which pre-*Lear* estoppel was based.

The danger of some extension of unwarranted monopolies is outweighed, as Judge Weinfeld emphasized, by the threats to enforcement of valid patents and proliferation of expensive and time consuming litigation[4] necessarily following upon denial of the usual res judicata effect to such decrees.

We agree with Judge Weinfeld that, absent evidence of collusion, judicial decrees disposing of issues in active litigation cannot be treated as idle ceremonies without denigrating the judicial process.[5]

An additional argument made by Wallace Clark in its brief on appeal, but not before the district court, is that, even if as a rule consent decrees adjudicating patent validity and infringement are res judicata, the instant decree by its own assertion is not. This contention relies upon the decree's third paragraph which states:

Corp., 430 F.2d 998, 1001 (8th Cir. 1970); *Kiwi Coders Corp. v. Acro Tool & Die Works*, 250 F.2d 562, 568 (7th Cir. 1957).

4. *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 335, 337, 338 (1971).

5. See Note: " 'To Bind or Not to Bind': Bar and Merger Treatment of Consent Decrees in Patent Infringement Litigation," 74 Colum. L. Rev. 1332 (1974).

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> This decree may not be cited as an adjudication of contested issues, nor be used for advertising purposes.

Wallace Clark's reliance upon the language of this paragraph is misplaced. See Judge Weinfeld's opinion, 394 F. Supp. at 395 n. 2:

> The provision of paragraph 3 of the consent decree . . . is regularly included in patent consent decrees in this district, and this court has always required its inclusion. The provision was never intended to deprive consent decrees of their res judicata effect and plaintiff makes no such claim in this court. The clause was designed to prevent misuse of consent decrees with respect to third parties by representations, whether explicit or implicit, that the judgment was entered after a trial on the merits. *See* PCR Golf Ball Co. v. Chemold Corp., 361 F. Supp. 187 (E.D.N.Y. 1973).

Wallace Clark argues that the comparable clause in the *Chemold* case, cited by Judge Weinfeld, differs materially from the clause now under consideration since the clause in *Chemold* stated: "This decree cannot be cited *against third parties* as an adjudication of the contested issues. . . ." 361 F. Supp. at 188 (emphasis added).

We find no significance in the variation in wording. We are unwilling to infer that the consent decree's adjudication of the validity and infringement of Acheson's patent was intended to be a meaningless act. *Cf. Brunswick v. Chrysler Corp.*, 408 F.2d 335 (7th Cir. 1969).

Finally, Wallace Clark argues that since its patent invalidity claim was a defense to its licensing contract with Acheson, its motion for a ruling that it had a right to make the invalidity claim should have been decided according to state and not federal law. Clearly, however, no reference to

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state law was necessary to the district court's ruling that its previous adjudication of the validity of Acheson's patent in the 1972 consent decree was res judicata.

The judgment of the district court is affirmed.

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OPINION OF UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF NEW YORK

WALLACE CLARK & COMPANY, INC.,
Plaintiff.

v.

ACHESON INDUSTRIES, INC.,
Defendant.

No. 74 Civ. 2812.

United States District Court,
S.D. New York.

April 28, 1975.

Patent licensee brought action seeking declaration of invalidity of defendant's patent and its noninfringement by plaintiff's product. Plaintiff moved to be relieved from terms of consent decree which was entered in similar prior action. The District Court, Edward Weinfeld, J., held that rule providing for relief from a judgment on ground that it is no longer equitable and that the judgment should have prospective application contemplates relief from a judgment as a result of a later change in the law and does not apply where cases relied upon as a precedent by the court in rendering the present judgment has since been reversed, that general rule is that a consent judgment has res judicata effect, that consent decrees containing adjudication of patent validity and infringement, entered into without collusion, after litigants had had the opportunity for pre-trial discovery and trial on the merits is to be accorded res judicata effect and that since prior decree was entered into without collusion and following pretrial discovery was entitled to res judicata effect with respect to

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patent validity and infringement by plaintiff's product which was at issue in the prior suit but that plaintiff could assert noninfringement by other products which were not the subject of the prior consent decree.

Motion denied.

1. Judgment 651

As included in consent decrees in patent litigation, recital that decree may not be cited as an adjudication of contested issues nor be used for advertising purposes was not intended to deprive consent decrees of their res judicata effect; such clause was designed to prevent misuse of consent decrees with respect to third parties by representations, whether explicit or implicit, that the judgment was entered after a trial on the merits.

2. Federal Civil Procedure 2651

Rule contemplating relief from a judgment on ground that it is no longer equitable that the judgment should have prospective application contemplates relief from a judgment as result of a later change in the law such as when a statute is amended or when a prior judgment is reversed or modified. Fed. Rules Civ.Proc. rule 60(b)(5), 28 U.S.C.A.

3. Federal Civil Procedure 2651

Relief from a judgment on ground that it is no longer equitable that the judgment should have prospective application because of reversal of a prior judgment is restricted to situations where the present judgment is based on the prior judgment in the sense of res judicata or collateral estoppel. Fed. Rules Civ.Proc. rule 60(b)(5), 28 U.S.C.A.

4. Federal Civil Procedure 2651

Rule providing for relief from a judgment on ground that it is no longer equitable that the judgment should have prospective application does not apply where case relied on as a precedent by the court in rendering the present judgment has since been reversed. Fed.Rules Civ.Proc. rule 60(b)(5), 28 U.S.C.A.

5. Judgment 651

General rule is that a consent judgment has res judicata effect.

6. Judgment 644

The public interest is dominant in the patent system; consequently, to protect the public interest in the free circulation of ideas, the doctrine of res judicata in patent cases has been limited so as to assure that invalid patents are not used or valid patents misused to acquire a monopoly power.

7. Declaratory Judgment 232

Although to hold a patent valid if it is not infringed is to decide a hypothetical case, invalidity will be adjudicated in absence of infringement since an invalid patent should not remain in the art as a scarecrow.

8. Judgment 651

Balancing of relevant public interest factors requires that consent decrees containing adjudications of patent validity and infringement, entered into without collusion, after the litigants have had the opportunity for pretrial discovery and a trial on the merits, are to be given res judicata effect

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such decrees should be of no less binding force than a judgment of validity and infringement entered after a trial on the merits.

9. Monopolies 12(1)

Public policy against monopolies is not without its limits.

10. Federal Civil Procedure 1711

In granting a voluntary dismissal the court may impose terms as a condition thereof to prevent abuse of the judicial process. Fed.Rules Civ.Proc. rule 41(a), 28 U.S.C.A.

11. Declaratory Judgment 63

Giving the stamp of approval to a meaningless document can only breed disrespect for the sanctity of a judicial decree.

12. Judgment 651

Where consent decree, in which patent was held both valid and infringed, was entered into without collusion and after pretrial discovery, decree was to be accorded res judicata effect in subsequent suit by the same plaintiff seeking declaration of validity and noninfringement; however, prior decree did not foreclose plaintiff from asserting noninfringement as to products which were not the subject of the prior decree.

Sandoe, Hopgood & Calimafde, New York City, for plaintiff; Paul H. Blaustein, New York City, of counsel.

Pennie & Edmonds, New York City, for defendant; James G. Foley, New York City, Harness, Dickey & Pierce, Michael Dinnin, Jr., Birmingham, Mich., of counsel.

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OPINION

EDWARD WEINFELD, District Judge.

This is the second action instituted in this court by plaintiff, Wallace Clark & Company, Inc. ("Wallace Clark"), against the defendant, Acheson Industries, Inc. ("Acheson"), involving the validity and infringement of patent No. 2,976,257 issued to and owned by Acheson. The first action was instituted by plaintiff in December 1971 for a declaratory judgment of invalidity of defendant's patent and its non-infringement by plaintiff's manufacture, use and sale of its product Meta-Tef 530. Acheson counterclaimed, charging plaintiff with patent infringement. After pretrial discovery procedures the case moved forward to trial; however, it was never tried. The parties entered into a consent decree wherein Acheson's patent was held both valid and infringed by plaintiff's product Meta-Tef 530. Coincidental thereto, the parties executed a non-exclusive licensing agreement under which Wallace Clark is licensed to manufacture and sell certain products under the claims of Acheson's patent with royalty payments determined on a percentage basis with a fixed minimum. The license is coterminous with the patent; both expire on March 21, 1978. Pursuant to the agreement, the consent decree was submitted to and duly signed on October 6, 1972 by Judge Cannella, to whom the matter had been assigned. The decree provided for the dismissal of the action with each party to bear its own costs and attorneys' fees.

(1) Plaintiff made the payments required under the license agreement until January 1, 1974, when it discontinued making further payments. Thereupon, in April 1974, Acheson filed an action in Michigan state court

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against Wallace Clark for breach of the licensing agreement. Wallace Clark counterclaimed for a declaratory judgment that it had the right to contest validity of the Acheson patent and also to allege invalidity and non-infringement as a defense to Acheson's suit to recover royalty payments; it also asserted as a defense patent misuse, claiming that the minimum royalty clause is an illegal extension of the patent. In addition, Wallace Clark counterclaimed for treble damages under section 1 of the Sherman Act[1] based upon the provision in the license agreement that it may not be terminated during the life of the patent. Within two months thereafter, in June 1974, Wallace Clark instituted this action, the second in this court, for a declaratory judgment asserting substantially the same claims advanced as defenses and counterclaims in the Michigan action.[2]

(2-4) Wallace Clark now moves to be relieved of the terms of the consent decree under Rule 60(b)(5) of the

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1. 15 U.S.C. §1.

2. Acheson moved to stay this action pending determination of its suit in the Michigan state court. Wallace Clark moved to stay the Michigan state court action pending a determination of this action. While the instant motion was sub judice, the Michigan state court rendered a decision upholding Wallace Clark's position that the consent decree is not entitled to res judicata effect, but it did so because of paragraph 3 of the decree referred to below. Leave to appeal was granted. Notwithstanding the ruling in that case, both parties stipulated to dismiss the Michigan action and to proceed in this court for determination of the issue.

The provision of paragraph 3 of the consent decree that "[t]his decree may not be cited as an adjudication of contested issues, nor be used for advertising purposes," is regularly included in patent consent decrees in this district, and this court has always required its inclusion. The provision was never intended to deprive consent decrees of their res judicata effect and plaintiff makes no such claim in this court. The clause was designed to prevent misuse of consent decrees with respect to third parties by representations, whether explicit or implicit, that the judgment was entered after a trial on the merits. *See* PCR Golf Ball Co. v. Chemold Corp., 361 F.Supp. 187 (E.D.N.Y. 1973). The same precautionary provision is included in copyright cases.

Federal Rules of Civil Procedure on the ground that "it is no longer equitable that the judgment should have prospective application," and under Rule 60(b)(6) for "other reason(s) justifying relief from the operation of the judgment." While it seeks relief under the foregoing rule, actually its motion is for summary judgment to determine the res judicata effect of the consent decree considered in light of the Supreme Court's ruling in Lear, Inc. v. Adkins.[3] Wallace Clark's request for relief is miscast under Rule 60(b)(5) or (6) since it entered into the consent decree three years *after* the Supreme Court's decision in *Lear* on June 16, 1969. Presumably the parties to the lawsuit, represented by the same experienced patent attorneys who now appear on their behalf, were not unfamiliar with its holding.[4] Acheson agrees the issue is one of law and that the matter is ripe for disposition. Accordingly, we turn to the merits of plaintiff's claim for relief under the summary judgment rule.[5]

I

A.

(5) Plaintiff, in reliance upon *Lear*, seeks to avoid any res judicata effect of the consent decree.

3. 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969).

4. Rule 60(b)(5) contemplates relief from a judgment as a result of a *later* change in the law such as when a statute is amended or when a prior judgment is reversed or modified. *See, e.g.*, Class v. Norton, 507 F.2d 1058, 1061-62 (2d Cir. 1974). Moreover, relief from a judgment on the latter grounds is restricted to situations where the present judgment is based on the prior judgment in the sense of res judicata or collateral estoppel. Rule 60(b)(5) does not apply where a case relied on as precedent by the court in rendering the present judgment has since been reversed. Title v. United States, 263 F.2d 28, 31 (9th Cir.), cert. denied, 359 U.S. 989, 79 S.Ct. 1118, 3 L.Ed.2d 978 (1959); Berryhill v. United States, 199 F.2d 217, 219 (6th Cir. 1952); Loucke v. United States, 21 F.R.D. 305 (S.D.N.Y. 1957). *See* 11 C. Wright & A. Miller, Federal Practice and Procedure §2863 (1973).

5. Fed.R.Civ.P. 56.

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Under the general rule that a consent judgment has res judicata effect,[6] plaintiff would be estopped from contesting the validity of Acheson's patent and that its Meta-Tef 530 product infringes thereon. However, Wallace Clark contends that the decree should not be accorded res judicata effect in light of the public policy against invalid patent monopolies. Thus, the issue to be determined is the res judicata effect of the consent decree in subsequent litigation between the same parties presenting the same issues of validity and infringement as in the prior action.

B.

Since plaintiff's principal reliance in support of its position is on *Lear*, it is desirable to consider the facts upon which *Lear* was grounded, its precise holding and its underlying rationale.

Adkins, an inventor, was hired by Lear, Inc. in January 1952 to help solve gyroscope problems encountered by Lear in its work in the aviation field. They entered into a preliminary agreement which provided that all new ideas, discoveries and inventions related to vertical gyros became the property of Adkins; in turn, he agreed to grant Lear a license as to all ideas he developed on a mutually

6. United States v. Southern Ute Indians, 402 U.S. 159, 91 S.Ct. 1336, 28 L.Ed.2d 695 (1971); Siegel v. National Periodical Publications, 508 F.2d 909, 913 (2d Cir. 1974); Siebring v. Hansen, 346 F.2d 474, 477 (8th Cir.), cert. denied, 382 U.S. 943, 86 S.Ct. 400, 15 L.Ed.2d 352 (1965); Kiwi Coders Corp. v. Arco Tool & Die Works, 250 F.2d 562, 568 (7th Cir. 1957); Folgueras v. Hassle, 331 F.Supp. 615, 616 (W.D.Mich.1971); Stuyvesant Ins. Co. v. Dean Const. Co., 254 F.Supp. 102, 110 (S.D.N.Y.1966), aff'd sub nom. Stuyvesant Co. v. Kelly, 382 F.2d 911 (2d Cir. 1967); Moore's Federal Practice ¶0.409[5]. *See* United States v. Swift & Co., 286 U.S. 106, 115, 52 S.Ct. 460, 462, 76 L. Ed. 999 (1932): "We reject the argument . . . that a decree entered upon consent is to be treated as a contract and not as a judicial act."

satisfactory royalty basis. Adkins soon developed an improved gyroscope which Lear incorporated into its production process. In February 1954, Adkins filed an application with the Patent Office to protect his improvements, and at about the same time entered into negotiations with Lear for licensing and royalty arrangements. These negotiations were concluded in September 1955 in an agreement which defined the conditions under which Lear California gyros used his patent and that claiming that both the Michigan and was obligated to pay royalties for Adkins' improvements. This agreement provided that if the Patent Office refused to grant a patent on Adkins' pending application, or if a patent were issued and latter declared invalid, Lear had the option to terminate the specific license so affected or to terminate the entire agreement.

Adkins' patent application was not granted until 1960, only after he had narrowed the scope of his claims following rejection of his original broad claim that his entire method of constructing gyroscopes was entitled to a patent monopoly. From the filing by Adkins of his original application in 1954 to the grant of his patent in 1960, Lear questioned that Adkins was entitled to receive a patent. In 1957, after Adkins' patent applications had been rejected twice, Lear contended that a Patent Office search disclosed a prior patent which had fully antedated Adkins' discovery. Lear then refused to pay royalties any longer on gyroscopes produced at its Michigan plant, which it claimed it had developed independently, although it continued to pay royalties on those produced at its California plant until 1959.

When Adkins obtained his patent in 1960, he brought suit against Lear. Lear's failure to pay royalties on those

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gyros was a breach both of the 1955 contract and Lear's quasi-contractual obligation. Lear sought to raise patent invalidity as a defense, but the trial judge directed a verdict in favor of Adkins on the California gyros, holding that Lear was estopped by the licensing agreement from questioning Adkins' patent. Following an intermediate appeal, the case reached the California Supreme Court, which held that

> "[o]ne of the oldest doctrines in the field of patent law establishes that so long as a licensee is operating under a license agreement he is estopped to deny the validity of his licensor's patent in a suit for royalties under the agreement. The theory underlying this doctrine is that a licensee should not be permitted to enjoy the benefit afforded by the agreement while simultaneously urging that the patent which forms the basis of the agreement is void."[7]

The court found that the 1955 agreement between Adkins and Lear was in effect and concluded that under the doctrine of licensee estoppel, Lear was barred from challenging the validity of Adkins' patent.

The Supreme Court recognized that when it last considered the doctrine in Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.,[8] it, like the California Supreme Court, had invoked estoppel to deny a licensee the right to prove that his licensor was demanding royalties for the use of an idea which was not validly patented and thus a part of the public domain. Certiorari was granted "to reconsider the validity of the Hazeltine rule in the light of

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7. Adkins v. Lear, Inc., 67 Cal.2d 882, 891, 64 Cal.Rptr. 545, 549, 435 P.2d 321, 325-26 (1967).

8. 339 U.S. 827, 836, 70 S.Ct. 894, 94 L.Ed. 1312 (1950).

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. . . recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection."[9]

In considering this issue, Mr. Justice Harlan reviewed in detail the Supreme Court, intermediate federal and state court cases which had carved out various exceptions to the "general rule" of licensee estoppel, and observed that the exceptions had all but eroded the estoppel doctrine in patent licensing agreements. Thus, he concluded:

> "The uncertain status of licensee estoppel in the case law is a product of judicial efforts to accommodate the competing demands of the common law of contracts and the federal law of patents. On the one hand, the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made. On the other hand, federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. [citations omitted] When faced with this basic conflict in policy, both this Court and courts throughout the land have naturally sought to develop an intermediate position which somehow would remain responsive to the radically different concerns of the two different worlds of contract and patent. The result has been a failure. Rather than creative compromise, there has been a chaos of conflicting case law, proceeding on inconsistent premises."[10]

He thereupon "renew[ed] the search for an acceptable middle ground."[11]

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9. 395 U.S. at 656, 89 S.Ct. at 1904, *citing* Sears, Roebuck & Co. v. Stiffel Co., 376 U. S. 225, 84 S.Ct. 784, 11 L.Ed.2d 661 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed.2d 669 (1964).

10. 395 U.S. at 668, 89 S.Ct. at 1910.

11. *Id.*

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In searching for this accommodation, the Court reasoned that a patent is a legal conclusion reached by the Patent Office about which reasonable men could differ widely, a conclusion often reached in an ex parte proceeding. In this circumstance the Court considered it not unfair to require a patentee to defend the Patent Office's judgment when his licensee raises the issue of validity, particularly since the licensor has the benefit of the presumption of validity which attaches to his patent.[12] Licensees are usually the only individuals possessed with sufficient economic incentive to challenge the patentability of an inventor's discovery, and "[i]f they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification."[13] In ultimate terms the Court concluded that "the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain" required that "the technical requirements of contract doctrine must give way before the demands of the public interrest."[14] Accordingly, the general licensee estoppel doctrine enunciated in Automatic Radio Manufacturing Co. v. Hazeltine Research Inc. was overruled and put to rest.[15]

C.

This extended recital points up at once essential differences between the facts in *Lear* and those in the instant case. Lear, from the time it acquired its licensing rights

12. 35 U.S.C. §282.

13. 395 U.S. at 670, 89 S.Ct. at 911.

14. *id.*

15. *Id.* at 671, 89 S.Ct. at 1911.

prior to grant of the patent, had challenged Adkins' right to the patent monopoly. And after the grant of the patent, Lear was never permitted by the California courts to challenge the validity of the patent because of the doctrine of licensee estoppel. In *Lear* there was no litigation leading to a consent decree. Here a consent decree and license agreement were entered into only after the issuance of the patent and after Wallace Clark announced its first declaratory judgment action. This was after pretrial discovery and with a full opportunity to have the contested issues of validity and infringement judicially determined.[16]

Wallace Clark's present attempt to disavow its commitment under the decree rests upon the rationale that if it, as a licensee, is now foreclosed from challenging the validity of the patent, the public would be forced to pay tribute to an unwarranted monopoly grant. Accordingly, plaintiff presses that the public interest as explicated in *Lear* is so predominant that its own prior conduct in voluntarily entering into the consent decree is irrelevant and that it should not be estopped from challenging the validity of plaintiff's patent—in short, that the "public interest in a judicial determination of the invalidity of a worthless patent"[17] not only outweighs principles of contract law, but also the public policy favoring the finality of litigation and the conversation of judicial resources. It

16. "Consent decrees are entered into by parties to a case after careful negotiation has produced agreement on their precise terms. The parties waive their right to litigate the issues involved in the case and thus save themselves the time, expense, and inevitable risk of litigation. Naturally, the agreement reached normally embodies a compromise; in exchange for the saving of cost and elimination of risk, the parties each give up something they might have won had they proceeded with the litigation." United States v. Armour & Co., 402 U.S. 673, 681, 91 S.Ct. 1752, 1757, 29 L.Ed.2d 256 (1971).

17. Addressograph-Multigraph Corp. v. Cooper, 156 F.2d 483, 485 (2d Cir. 1946).

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may be in order to observe, however, as Judge Friendly did in another context, that public policy "is a very unruly horse, and when once you get astride it, you never know where it will carry you."[18]

[6, 7] We start with the observation that the public interest is dominant in the patent system; consequently, to protect the public interest in the free circulation of ideas, the doctrine of res judicata in patent cases has been limited to assure that invalid patents are not used or valid patents misused to acquire a monopoly power.[19] Thus, long before *Lear*, this circuit held in Addressograph-Multigraph Corp. v. Cooper[20] that a consent decree in a prior suit by the same parties which merely decreed that a patent was valid did not estop a party from later contesting validity in another suit for infringement brought by the same plaintiff. But where there was an adjudication of infringement, the decree would be given res judicata effect. The holding in *Addressograph* was based

> "on grounds of public policy . . . that in a decree, at least in one entered in by consent, either an adjudication of infringement, or a grant of some relief from which infringement may be inferred, is essential before any effect of res judicata can be given to it on the issue of validity."[21]

Since *Lear*, several courts have recognized that a consent decree adjudicating patent validity alone is not res judicata.[22] There are substantial reasons for refusing to

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18. Painton & Co. v. Bourns, Inc., 442 F.2d 216, 225 (2d Cir. 1971), *quoting* Richardson v. Mellish, 2 Bing. 229, 252 (1824).

19. Mercoid Corp. v. Mid-Continent Co., 320 U.S. 661, 665-66, 64 S.Ct. 268, 88 L.Ed. 376 (1944).

20. 156 F.2d 483 (2d Cir. 1946).

21. *Id.*, at 485.

22. Crane v. Aeroquip Corp., 504 F.2d 1086, 1092 (7th Cir. 1974); Kraly v. National Distillers and Chem. Corp., 502 F.2d 1366, 1368 (7th Cir. 1974);

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grant such decrees res judicata effect. An invalid patent cannot be infringed; conversely, only a valid patent can be infringed. In the words of the Supreme Court: "To hold a patent valid if it is not infringed is to decide a hypothetical case."[23] When sued by the owner of a patnet, a defendant's principal concern is to resist a finding of infringement; that a patent is declared valid is of little consequence to him as against his interest in warding off a finding of infringement which may cast him in substantial liability. This was the underlying rationale of our Court of Appeals in *Addressograph* in concluding that a consent decree which merely declared validity was not entitled to estoppel force, whereas one that also included an adjudication of infringement would be given res judicata effect on the validity issue.[24]

Plaintiff urges that despite the adjudication of infringement in the consent decree entered in the prior action, *Lear's* public interest concept requires that its doc-

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Broadview Chem. Corp. v. Loctite Corp., 474 F.2d 1391, 1395 (2d Cir. 1973); Business Forms Finishing Service, Inc. v. Carson, 452 F.2d 70, 75 (7th Cir. 1971). *Contra*, Schlegel Mfg. Co. v. King Aluminum Corp., 369 F.Supp. 650 (S.D.Ohio 1973). *Cf.* Massillon-Cleveland-Akron Sign Co. v. Golden State Adv't Co., 444 F.2d 425 (9th Cir.), cert. denied, 402 U.S. 873, 92 S.Ct. 100, 30 L.Ed.2d 117 (1971) (covenant in settlement agreement not to contest patent's validity void and unenforceable as against public policy.)

23. Altvater v. Freeman, 319 U.S. 359, 363, 63 S.Ct. 1115, 1117, 87 L.Ed. 1450 (1943). As a matter of logic, as a number of courts have observed, it should follow that "to hold a patent invalid if not infringed is also to decide a hypothetical case." Addressograph-Multigraph Corp. v. Cooper, 156 F.2d 483, 485 (2d Cir. 1946); Hale v. General Motors Corp., 147 F.2d 383, 388 (1st Cir. 1945). Even so, invalidity has been adjudicated in the absence of infringement because, in the apt words of Chief Judge Learned Hand, the invalid patent "should not remain in the art as a scarecrow." Bresnick v. United States Vitamin Corp., 139 F.2d 239, 242 (2d Cir. 1943); *see also* Cover v. Schwartz, 133 F.2d 541, 545 (2d Cir. 1942), cert. denied, 319 U.S. 748, 63 S.Ct. 1158, 87 L.Ed. 1703 (1943).

24. Addressograph-Multigraph Corp. v. Cooper, 156 F.2d 483, 484-85 (2d Cir. 1946).

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trine be extended to apply to such decrees—in effect that *Addressograph* is no longer good law. Two Courts of Appeals have considered this issue, but neither made a definitive ruling. Our own Court of Appeals, invited to overrule *Addressograph*, declined to do so since plaintiff sought no declaration of invaidity and defendant made no charge of infringement. The court stated: "In light of the record before us which fails to establish any pleading or proof of invalidity, we see no warrant here to extend *Lear* or to overrule *Addressograph*."[25] The Seventh Circuit Court of Appeals, in dictum, seemingly favors extending *Lear* to apply to all consent decrees. In Kraly v. National Distillers and Chemical Corporation,[26] where an infringement action was dismissed with prejudice but there was no adjudication of infringement, the court hypothesized as follows:

> "Even if we assume, however, that the consent decree embodied an adjudication of infringement, we do not believe that the *Lear* rationale would necessarily be inapplicable."[27]

With due deference to the *Kraly* court,[28] such a holding is undesirable.

It is important to emphasize the precise thrust of *Lear*. It abolished the doctrine of estoppel to permit a licensee to challenge the validity of the patent in a suit for royalties due under the contract, recognizing that usually licensees are the only parties with enough economic incentive to do so. The position here urged by plaintiff is not needed to

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25. Broadview Chem. Corp. v. Loctite Corp., 474 F.2d 1391, 1395 (2d Cir. 1973).

26. *502 F.2d 1366 [7th Cir. 1974]*.

27. *Id.* at 1369.

28. Relying on the *Kraly* decision, the court in USM Corp. v. Standard Pressed Steel Co., 184 U.S.P.Q. 476 (N.D.Ill. 1974) held that a consent decree finding patent validity and infringement would not be given res judicata effect.

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enable a licensee to attack a patent's validity. It is one thing to say that a party is not prevented from contesting the validity of a patent merely by entering into a licensing agreement. It is quite another to allow one, freed of the barrier of licensee estoppel, to commence litigation with a full opportunity for a trial on the issues of validity and infringement, to consent to an adverse adjudication on both issues and then for him cavalierly to ignore the consequences of the decree based on such consent the minute he leaves the courthouse. The decree under that theory is merely a scrap of paper.

(8) In this court's view, a balancing of the relevant public interest factors requires that consent decrees containing adjudications of validity and infringement, entered into without collusion, after the litigants have had the opportunity for pretrial discovery and a trial on the merits, be accorded res judicata effect. Such decrees should be of no less binding force than a judgment of validity and infringement entered after a trial on the merits. To hold otherwise would permit abuse of the judicial process, waste of judicial resources and reward questionable ethical conduct. These are all matters which also concern the public interest. To adopt the plaintiff's position would force every patent validity and infringement suit to a trial on the merits to assure a res judicata effect. It would discourage settlement of such litigation, since otherwise there could be no assurance of finality. Must this assurance come only as a result of a trial on the merits so that litigation is compelled to achieve an unassailable position? The public interest is not served by driving a patentee and an alleged infringer into extended litigation of a kind recognized by the Supreme Court as "a very costly process," entailing "staggering" financial burdens upon

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the respective litigants where, even in a nonjury trial, "an inordinate amount of trial time"[29] is required.

To plaintiff's contention that it should again be permitted to challenge the validity of the patent in the public interest, the short answer is that it had that opportunity in its first declaratory judgment action wherein it consented to the decree it now seeks to void. Either it then failed to serve the public interest when it abandoned its attack on the validity of the patent or, perhaps satisified it was valid, served its own economic interest. Having derived the benefits of a settlement and a license agreement, plaintiff should not now, upon a claim that it is the defender of the public interest, be permitted to disavow its commitments.

(9) The public policy against monopolies is not without its limits, as two Seventh Circuit cases demonstrate. In Ransburg Electro-Coating Corp. v. Spiller and Spiller, Inc.,[30] the court enforced a settlement agreement to pay money for past infringement even though after the settlement agreement to pay money for past infringement even though after the settlement agreement was entered into, a different Court of Appeals held that the subject of the settlement did not infringe. The court recognized that enforcement of the settlement contract would result in the payment of damages partly for the use of a device that it outside the scope of the patent. While *Lear* concluded that federal patent policy requires the abolition of the doctrine

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29. Blonder-Tongue v. University Foundation, 402 U.S. 313, 334, 337, 91 S.Ct. 1434, 1447, 28 L.Ed.2d 788 (1971). *See* Commissioner of Internal Revenue v. Sunnen, 333 U.S. 592, 597, 68 S.Ct. 715, 719, 92 L.Ed. 898 (1948):

> "The general rule of *res judicata* applies to repetitious suits involving the same cause of action. It rests upon considerations of economy of judicial time and public policy favoring the establishment of certainty in legal relations."

30. 489 F.2d 974 (7th Cir. 1973).

of licensee estoppel, the court held "that such policy must occupy a subsidiary position to the fundamental policy favoring the expedient and orderly settlement of disputes and the fostering of judicial economy."[31] Similarly, in Maxon Premix Burner Co. v. Eclipse Fuel Eng. Co.,[32] the court noted that while public policy encourages tests of patent validity, public policy also favors conservation of judicial time and limitations on expensive litigation.[33] Therefore, the court held that a party had waived the right to contest the validity of a patent by raising the issue for the first time in post trial motions after the court had found infringement.

The Ninth Circuit, in Schnitger v. Canoga Electronics Corp.,[34] held that a trial on the merits is not required before a judgment of patent validity and infringement is entitled to res judicata effect. The court's per curiam decision does not so indicate, but an examination by this court of the record in *Schnitger* reveals that the prior judgment accorded res judicata effect was obtained by default. The holding in the instant case follows a fortiorari.[35]

(10) To permit plaintiff to reassert in this suit the same claims it advanced in its first action is tantamount to relegating all consent decrees in patent suits of this kind to the status of a voluntary dismissal without prejudice under Rule 41(a) of the Federal Rules of Civil Procedure, with the end result as if the action had not been brought in the first

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31. 489 F.2d at 978.

32. 471 F.2d 308 (7th Cir. 1972), cert. denied, 410 U.S. 929, 93 S.Ct. 1365, 35 L.Ed.2d 591 (1973).

33. 471 F.2d at 312.

34. 462 F.2d 628 (9th Cir. 1972).

35. Record on Appeal at 18.

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place.[36] At least in the instance of a voluntary dismissal the court may impose terms as a condition thereof to prevent abuse of the judicial process.[37] Under plaintiff's theory, it could immediately upon the entry of the consent decree commence a second litigation, free of any conditions or costs and engage the time and attention of heavily overburdened courts.

If consent decrees of validity and infringement could so readily be disregarded by an alleged infringer, there is less incentive on his part to challenge the patent when the issue of infringement first arises in a litigation—the logical time to do so if the public interest is to be promptly served. Adopting the plaintiff's position may postpone the time when invalid patents are successfully challenged, to the detriment of the public interest.[38]

(11) Finally, if consent decrees entered into by litigants free from collusion do not have res judicata effect, then courts are called upon to perform an idle ceremony. Giving the stamp of approval to a meaningless document can only breed disrespect for the sanctity of a judicial decree. If that is the end result, such decrees should not be signed by the courts.

(12) Accordingly, the consent decree entered in the prior action between the parties is to be accorded res judicata effect with respect to the adjudication of (1) the validity of the patent, and (2) infringement of the patent by plaintiff's product Meta-Tef 530.

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36. Humphreys v. United States, 272 F.2d 411, 412 (9th Cir. 1949); A.B. Dick Co. v. Marr, 197 F.2d 498, 502 (2d Cir.), cert. denied, 344 U.S. 878, 73 S.It. 169, 97 L.Ed. 680 (1952); 9 C. Wright & A. Miller, Federal Practice and Procedure §2367 (1971).

37. Harvey Aluminum, Inc. v. American Cyanamid Co., 15 F.R.D. 14, 18 (S.D.N.Y. 1953).

38. Ransburg Electro-Coating Corp. v. Spiller and Spiller, Inc., 489 F.2d 974, 978 (7th Cir. 1973).

As to plaintiff's further motion for summary judgment under its second cause of action, the foregoing disposition does not foreclose plaintiff from asserting non-infringement of defendant's patent by other products manufactured by it, which products were not the subject of the prior consent decree. Since there are disputed issues, the motion is denied.

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

WALLACE CLARK & COMPANY, INC.,

Plaintiff,

74 Civil 2812

-against-

OPINION

ACHESON INDUSTRIES, INC.,

Defendant.

Hopgood, Calimafde, Kalil, Blaustein & Lieberman, Es
60 East 42nd Street
New York, New York
Attorneys for Plaintiff

Paul H. Blaustein, Esq.
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1500 N. Woodward
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Michael Dinnin, Jr., Esq.
Of Counsel

EDWARD WEINFELD, D.J.

Plaintiff, Wallace Clark & Company, Inc. ("Wallace Clark"), moves (1) for reconsideration and clarification of

the court's opinion of April 28, 1975, denying plaintiff's motion for summary judgment and holding that a prior consent decree between the parties adjudicating the validity of the defendant's patent and its infringement by plaintiff's product, Meta-Tef 530, is to be accorded res judicata effect; (2) for leave to appeal the adjudicated order pursuant to 28 U.S.C., section 1292(b); (3) to dismiss the second counterclaim of the defendant, Acheson Industries, Inc. ("Acheson"); and (4) for summary judgment upon its second cause of action.

1.

The court's holding is precise and requires no clarification. The holding that "the consent decree entered in the prior action between the parties is to be accorded res judicata effect with respect to the adjudication of (1) the validity of the patent, and (2) infringement of the patent by plaintiff's product Meta-Tef 530" does not foreclose, as the opinion specifies, "plaintiff from asserting non-infringement of defendant's patent by other products manufactured by it, which products were not the subject of the prior consent decree." The motion for reconsideration and clarification is denied.

2.

As to plaintiff's motion for leave to appeal from the aforesaid order pursuant to 28 U.S.C., section 1292(b), it is true, as this court acknowledged, that its holding on a controlling question of law is at variance with that of other courts. It is evident that an immediate appeal may materially advance the ultimate determination of this litigation. However, the court is of the view that in the

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circumstances of this case, it is preferable to facilitate an appeal by certification under Rule 54(b) of the Federal Rules of Civil Procedure as to the third count of the complaint, which challenges the validity of the patent.[1] Given the court's earlier opinion, there is no just reason for delay in the entry of judgment in favor of defendant, since plaintiff is barred by the doctrine of res judicata from contesting the issue of validity. The court's ruling precludes plaintiff from raising any factual or legal issue as to the validity of the patent in the remaining counts of the complaint. The court therefore directs entry of judgment in defendant's favor as to the third count of the complaint pursuant to Rule 54(b).

3.

Under its second counterclaim, defendant alleges that plaintiff is in contempt of the consent decree entered into between the parties on October 6, 1972, which adjudicated the validity of the defendant's patent and its infringement by plaintiff's manufacture, use and sale of its product Meta-Tef 530. As part of the settlement of the earlier lawsuit, the parties entered into a licensing agreement which the decree notes in dismissing the action. The plaintiff made royalty payments until January 1, 1974, when it discontinued making them. This action followed, in which it contends that it "has the right to and has cancelled said license agreement."

The defendant's second counterclaim reiterates the allegations of its first counterclaim that plaintiff has breached their contract and alleges that this breach

1. *See* Gumer v. Shearson, Hammill & Co., Dkt. Nos. 74-1643, 74-2193 (2d Cir. Dec. 16, 1974).

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constitutes a contempt of the consent decree. Civil contempt is for the remedial purpose of compelling obedience to an order of the court for the purpose of enforcing another party's rights.[2] In the usual patent case, the consent decree upon which it is sought to hold the alleged infringer in contempt contains an express injunction against any further infringement of the patent.[3] Here, however, the consent decree did not enjoin plaintiff from infringing defendant's patent by the manufacture, use and sale of its product Meta-Tef 530. It simply stated that "the plaintiff having taken a license under defendant's" patent, the action was dismissed. It contains no injunction whatsoever. A breach of the license agreement does not constitute contempt of court absent an injunctive provision for its compliance. Thus, whether the license agreement is in effect or has been terminated, plaintiff cannot be held in contempt of the consent decree since there is no outstanding court order directed to plaintiff.[4]

Plaintiff's motion to dismiss the defendant's second counterclaim is therefore granted.

4.

Finally, plaintiff moves for summary judgment on its second cause of action, alleging that the provisions of the

2. Shillitani v. United States, 384 U.S. 364, 368 (1966); Gompers v. Buck's Stove & Range Co., 221 U.S. 418, 449 (1911); International Business Machines Corp. v. United States, 493 F.2d 112, 115 (2d Cir. 1973), *cert. denied*, 416 U.S. 995 (1974).

3. *See, e.g.*, American St. Gobain Corp. v. Armstrong Glass Co., 434 F.2d 1216 (6th Cir. 1970)0 Crane Boom Life Guard Co. v. Saf-T-Boom Corp., 362 F.2d 317 (8th Cir. 1966), *cert. denied*, 386 U.S. 908 (1967); Siebring v. Hansen, 346 F.2d 474 (8th Cir. 1965), *cert. denied*, 382 U.S. 943 (1967); Hopp Press, Inc. v. Joseph Freeman & Co., 323 F.2d 636 (2d Cir. 1963); Botsolas v. Schultz Lab., 351 F. Supp. 188 (C.D. Calif. 1972). *See also* Union Tool Co. v. Wilson, 259 U.S. 107 (1922).

4. *See* 18 U.S.C. §401 (3); In re LaMarre, 494 F.2d 753 (6th Cir. 1974).

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licensing agreement constitute a patent misuse. It relies upon two provisions in the license agreement that the licensee (plaintiff) may not terminate the agreement prior to the patent's expiration on March 21, 1978. Plaintiff contends that the combination of these provisions and the minimum royalty clause extinguishes the right of a licensee under *Lear, Inc. v. Adkins*[5] to avoid royalty payments by proving that the patent is invalid.[6] It urges, without citing supporting authority, that this is a patent misuse.

The licensing agreement was entered into more than three years after *Lear* was decided. The effect of *Lear* was to render unenforceable any license agreement provision that attempts to prevent the licensee from contesting the validity of the patent as a defense to an action by the licensor to enforce the license agreement.[7] Thus defendant could not resuscitate licensee estoppel by this or any other language. The plaintiff concedes that a minimum royalty provision is not per se illegal, but urges that the combination of it and the clause barring cancellation of the license until expiration of the patent "in effect amounts to an estoppel to challenge validity."

While it is true that under this court's ruling the consent

5. 395 U.S. 653 (1969).

6. As to the royalty provision, the Supreme Court has noted: "It is generally the rule that licensees may avoid further royalty payments, regardless of the provision of their contract, once a third party proves the patent is invalid." Lear, Inc. v. Adkins, 395 U.S. 653, 667 (1969). *See also* Troxel Mfg. Co. v. Schwinn Bicycle Co., 465 F.2d 1253, 1255 (6th Cir. 1972) and 489 F.2d 968 (6th Cir. 1973), *cert. denied*, 416 U.S. 939 (1974); Drackett Chem. Co. v. Chamberlain Co., 63 F.2d 853, 855 (6th Cir. 1933); 4 Deller's Walker on Patents §404 (2d ed. 1965). *But see* Scherr v. Difco Labs, Inc., 401 F.2d 443 (6th Cir. 1968).

7. Bendix Corp. v. Balax, Inc., 471 F.2d 149 (7th Cir. 1972), *cert. denied*, 414 U.S. 819 (1973); Panther Pumps & Equip. Co. v. Hydrocraft, Inc., 468 F.2d 225, 231 (7th Cir. 1972), *cert. denied*, 411 U.S. 965 (1973); Massillon-Cleveland-Akron Sign Co. v. Golden State Adv't Co., 444 F.2d 425, 427 (9th Cir.), *cert. denied*, 404 U.S. 873 (1971).

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decree is to be accorded res judicata effect as to the issues of validity and infringement, the provisions of the license agreement, qua agreement, would not preclude plaintiff from contesting the validity of the patent, as opposed to restricting plaintiff from unilaterally cancelling the agreement during its existence. Those contractual provisions by themselves do not and could not destroy the force of *Lear*. As this court noted in its prior opinion, the parties were represented by the same experienced lawyers who now represent them when the license agreement was entered into as part of the settlement which included the consent decree. They were, of course, familiar with *Lear* and its holding, and it is difficult to impute to them the intent to do a futile act.

Even if it were assumed that the license agreement seeks to prevent plaintiff from challenging the patent's validity, the inclusion therein of this unenforceable provision does not constitute patent misuse.[8]

Plaintiff's motion for summary judgment as to its second cause of action alleging patent misuse is denied.

Dated: New York, N.Y.
July 21, 1975

s/ Edward Weinfeld
United States District Judge

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8. Bendix Corp. v. Balax, Inc., 471 F.2d 149, 157-58 (7th Cir. 1972), *cert. denied*, 414 U.S. 819 (1973); Panther Pumps & Equip. Co. v. Hydrocraft, Inc., 468 F.2d 225, 230-32 (7th Cir. 1972), *cert. denied*, 411 U.S. 965 (1973); Congoleum Indus., Inc. v. Armstrong Cork Co., 366 F. Supp. 220, 232-34 (E.D. Pa. 1973), *aff'd*, 510 F.2d 334, 336 (3d Cir. 1975); Blohm & Voss A.G. v. Prudential-Grace Lines, Inc., 346 F. Supp. 1116 (D. Mc. 1972), *rev'd on other grounds*, 489 F.2d 231 (4th Cir. 1973), *cert. denied*, 419 U.S. 840 (1974).

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Michigan Circuit Court, Wayne County

ACHESON INDUSTRIES, INC. v. WALLACE CLARK & CO., LTD.

No. 74-012650-CK
Decided Oct. 3 and Nov. 29, 1974

PATENTS

1. Jurisdiction of courts — Contracts and patent title (§43.15)

State courts—Jurisdiction (§63.3)

State courts have jurisdiction for recovery of royalties where defendant pleads invalidity of patent; jurisdiction is upheld where right originally asserted is founded on a contract and even though a federal action is pending.

2. Prior adjudication—Infringement suits (§56.15)

Proposition that consent decrees have res judicata effect is qualified by public interest in obtaining a judicial determination of invalidity of worthless patent, unless it is clear that issue of validity was genuine in litigation resulting in consent decree; decree is not binding where there is no adjudication of validity and infringement; thus, decree stating that patent is valid and infringed is nothing more than an order granting a stipulated dismissal where it also states that decree may not be cited as an adjudication of contested issues.

3. Estoppel —As to validity—Licensor or licensee (§35.156)

Prior adjudication—Infringement suits (§56.15)

Unless licensee is barred by res judicata finding of

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validity, it has right to challenge patent validity, even when license prohibits such conduct.

4. Estoppel—As to validity—Licensor or licensee (§35.156)

Title—Licenses—Termination—In general (§66.4271)

Lear v. Adkins, 162 USPQ 1 (US Sup Ct), did not recognize a right of licensee to terminate licensse; instead, it held that licensee may breach license through non-payment of royalties knowing that it can raise invalidity as defense to suit for unpaid royalties.

Action by Acheson Industries, Inc., against Wallace Clark & Co., Ltd., for breach of patent license in which defendant counterclaims for declaratory judgment. On plaintiff's motion to compel answers to interrogatories. On defendant's motions for a stay and for summary judgment. Motions denied.

Michael Dinnin, Jr., and Harness, Dickey & Pierce, both of Birmingham, Mich., for plaintiff.

Paul H. Blaustein and Hopgood, Calimafde, Kalil, Blaustein & Lieberman, both of New York, N.Y., and Dale R. Small and Whittemore, Hulbert & Bellknap, both of Detroit, Mich., for defendant.

MOODY, Circuit Judge.

This action is before the Court for a determination of four motions, three filed by Defendant and one filed by Plaintiff. The Defendant first moves for a stay of pleadings pending the determination of related matters in a New York Federal Court suit which was initiated after the instant action. In the alternative, summary judgment is requested as to the first and second counterclaim. Finally, the Defendant asks for a protective order preventing

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disclosure of confidential information as to its formulas and allowing Defendant's answers to certain of Plaintiff's interrogatories to stand. The Plaintiff's motion requests the Court to compel the Defendant to provide a more complete answer to the above mentioned interrogatories.

Jurisdiction

[1] This is an action for breach of contract and for an accounting. The contract in question is a License Agreement held by the Plaintiff. Federal statute vests the U.S. District Courts with original jurisdiction of any civil action arising under any Act of Congress relating to patents. Such jurisdiction shall be exclusive of the courts of the states in patent cases. 28 U.S.C.A. 1338. However, state courts have been held to have jurisdiction for recovery of royalties where Defendant pleaded the invalidity of the patent. Ridgway v. Wetterhold, 102 Kan. 217, 169 P. 1159 (1918). The jurisdiction of the state court is upheld where the right originally asserted is founded on a contract. Wade v. Lawder, 165 U.S. 624 (1897). Jurisdiction is in the state court even though a federal action is pending. L.A. Young Spring & Wire Corp. v. Falls, 293 Mich. 602 (1940).

Stay of Proceedings

Defendant asks this Court to stay its proceedings pending the outcome of a related declaratory action which the Defendant initiated in a New York Federal Court.

Wallace Clark argues that, since the License Agreement upon which this case is founded was entered into pursuant to a consent decree of the New York Court, there is just reason to allow that Court to make a determination as to whether the agreement or decree is binding on the parties.

However, the contract in question is to be construed under Michigan law. The Court has jurisdiction to decide the issues and this jurisdiction has been invoked by the Defendant through its counterclaim. Therefore the motion to stay is denied without prejudice.

Summary Judgment

The Defendant's first counterclaim is for a declaratory judgment to determine Wallace Clark's right to contest the validity of Plaintiff's patent and its right to allege invalidity or noninfringement as a defense to the present claim for royalty payments. It is the Plaintiff's position that the consent decree entered into by the parties is res judicata on the Defendant as to the question of patent validity. Further, the res judicata doctrine should apply to the question of infringement to the extent the Defendant is still using META-TEF 530.

In Michigan a consent judgment is as binding as a judgment entered upon the Court's acceptance of one of two conflicting stories. Bauer v. Township of Redford, 367 Mich. 71, 116 N.W.2d 326 (1962). A consent decree, when signed by a Court, is a judicial act and possesses the same force and character as a judgment rendered following a contested trial. Folqueras v. Hassle, 331 F. Supp. 615 (1971). However, consent judgments are primarily acts of parties rather than considered judgments of the Court. Ortiz v. Travelers Ins. Co., 2 Mich. App. 548, 140 N.W.2d 791 (1966).

[2] Consent decrees have res judicata effect. This general proposition is qualified only by some overriding principle, such as the public interest in obtaining a judicial determination of the invalidity of a worthless patent, unless it is

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clear that in the litigation resulting in the consent decree the issue of validity was genuine. 1B Moore's Federal Practice, Res Judicata Sec. 0.409, p. 1032 (2d ed.); Addressograph-Multigraph Corp. v. Cooper, 156 F.2d 483, 70 USPQ 272 (2d Cir. 1946).

Federal Courts have dealt with the res judicata effect of consent decrees in several patent cases. In Addressograph, supra, the parties entered into a consent decree concluding that the patent in question was valid. In a later infringement action between the same parties the patent holder offered the consent decree as res judicata on the question of patent validity. The Court held that an adjudication of patent validity is inoperative unless it is accomplished by an adjudication of infringement. See Business Forms Finishing Service, Inc. v. Carson, 452 F.2d 70, 171 USPQ 519 (7th Cir. 1971); Butterfield v. Oculus Contact Lens Company 332 F.Supp. 750, 171 USPQ 527 (ND Ill. 1971); Crane v. Aeroquip Corp., 364 F.Supp. 547, 179 USPQ 596, (ND Ill. 1973); and Kraly v. National Distillers and Chemical Corp., 502 F.2d 1366, 183 USPQ 79 (7th Cir. 1974). This rule has been extended to its obvious conclusion in Broadview Chemical Corp. v. Loctite Corp., 474 F.2d 1391, 177 USPQ 235 (2d Cir. 1973), where a prior consent decree, admitting validity and infringement, was held res judicata as to validity in a later infringement against a new line of products.

Now the consent decree entered in the instant case must be inspected to determine if it adjudicates the validity and an infringement of Acheson's patent. This judgment, dated October 6, 1972, was the result of a declaratory action initiated by Wallace Clark in a New York Federal District Court. The body of the consent decree reads as follows:

"CONSENT DECREE"

"As between the parties, by their counsel stipulating hereto, and the Court being fully advised in the matter, it is hereby ordered and decreed as follows:

"1. United States Letters Patent 2,976,257 in suit is valid and is infringed by plaintiff's manufacture, use and sale of its product Meta-Tef 530.

"2. The plaintiff having taken a license under defendant's United States Letters Patent, 2,976,257,' the above-entitled action is hereby dismissed, with each party to bear its own costs and attorney fees.

"3. This decree may not be cited as an adjudication of contested issues, nor be used for advertising purposes."

Granted, it does contain a statement that the patent in question is valid and further that Wallace Clark's manufacture, use and sale of Meta-Tef 530 infringed the patent. However, Paragraph 3 clearly limits the judicial effect of this decree. Case law requires an adjudication of validity and infringement before the consent decree will be binding. Paragraph 3 clearly reduces this consent decree to nothing more than an order granting a stipulated dismissal.

Plaintiff cites PCR Golf Ball Co. v. Chemold Corp., 361 F. Supp. 187, 179 USPQ 660 (SD NY, 1973), as explaining the language of Paragraph 3. However, as plaintiff notes in a footnote to his brief, the language used in PCR significantly differs from that used in this decree. It reads as follows:

"This decree cannot be cited *against third parties* as an adjudication of the contested issues as

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> to invalidity of infringement; further, this decree cannot be used for advertising purposes."

The italicized portion is the only material deviation from the language used in the instant decree, but it is a fatal deviation. Therefore this consent decree adjudicates no issues. By the parties own request the Court has declined to grant res judicata status in this case. The earlier case rests as though it was settled out of court. The consent decree is not res judicata as to the issues of invalidity and infringement. The remaining question is whether the license entered into pursuant to settlement will estop Wallace Clark from contesting the validity of Acheson's patent.

[3] Wallace Clark has asked this Court to declare the License Agreement terminated. Apparently the Defendant believes that Clauses 14 and 16 of the License Agreement prevent Wallace Clark from challenging the validity of the patent. However, since Lear v. Adkins, 395 U.S. 653, 162 USPQ 1 (1969), a licensee clearly has the right to challenge patent validity, even when a license provision specifically prohibits such conduct. The only bar to such a challenge would be a res judicata finding of validity.

Defendant further asks this Court to declare that Wallace Clark has a right to terminate the License Agreement. The foundation of this argument is unclear. The Defendant has failed to cite authority for this proposition except to the extent of concluding that Clauses 14 and 16 of the License Agreement illegally prevent the Defendant from terminating during the life of the patent under Lear. In Blonder-Tongue Laboratories v. University of Illinois Foundation, 402 U.S. 313, 346, 28 L.Ed. 2d 788, 809, 91 S.Ct. 1434, 169 USPQ 513, 526 (1971), the U.S. Supreme Court interpreted Lear as follows:

> "Lear permits an accused infringer to accept a license, pay royalties for a time, and cease paying

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when financially able to litigate validity, secure in the knowledge that invalidity may be urged when the patentee-licensor sues for unpaid royalties."

[4] The Court did not recognize a right of the licensee to terminate the license. Instead, Lear means the licensee may breach the agreement through nonpayment of royalties knowing that now, post-Lear, he can raise invalidity as a defense to a suit for unpaid royalties. From the pleadings already filed in this action, it appears that Wallace Clark has already taken advantage of the Lear decision. It would appear at this time that enforcement of the License Agreement would be dependent upon the existence of a valid patent. See Paul v. Collins, 191 Mich. 113 (1916); Daniels v. Parradee, 231 Mich. 251 (1925); L. A. Young Spring and Wire Corp. v. Falls, supra.

In conclusion, the request to declare the License Agreement terminated or that the Defendant has a right to terminate the agreement is denied. Defendant may nevertheless contest validity and infringement.

Protective Order Regarding Plaintiff's First Set of Interrogatories

Defendant's final motion is for a protective order regarding the following of Plaintiff's first set of interrogatories: 1(c)(d), 2, 3(d), 13(a)(b), and 14. Plaintiff has filed a corresponding motion to compel more complete answers to the same questions.

Question 1(c) has been sufficiently answered by Defendant.

Question 1(d) requests the formulation and ingredients of Meta-Tef 730. The License Agreement provides in Paragraph 11 that Defendant will disclose the recipe of

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#730 to Plaintiff's counsel on a lawyer confidential basis when the combined amounts of Meta-Tef 530 and Meta-Tef 730 require a royalty payment in excess of the yearly minimum payment.

Questions 1(d), 2 and 3(d) request information regarding the formulation and ingredients of various products manufactured by Defendant. Wallace Clark has answered these questions by indicating how its products individually differ from the claims stated in Plaintiff's patent. Wallace Clark has indicated the parties are dealing in a highly competitive field. It further claims that its formulas are trade secrets. In view of the foregoing the Court concludes that Defendant has answered these questions sufficiently at this time. Later on if Plaintiff shows sufficient cause and appropriately narrows its question, a further inquiry may be appropriate in this area that should require a reply. Otherwise, this Court is reluctant to order complete release of formulas.

As to questions 13(a)(b) and 14, this Court has concluded that the answers by Defendant are presently sufficient.

Nov. 29, 1974

Plaintiff's motion for reconsideration is denied. This Court will rely upon the reasoning of its prior determination including the holding of Lear v. Adkins, 395 U.S. 653, 162 USPQ 1 (1969). Nothing new has been raised by Plaintiff.

As a part of the prior consent decree the parties entered into an agreement or solemn contract which included the statement that said agreement "may not be cited as an adjudication of contested issues ***". This is exactly what

Plaintiff desires to do by its present position but agreed not to do.

The most obvious conclusion from such language would be if another lawsuit developed between the parties over their relationship, the prior consent decree would not be binding.

If a different meaning were intended than expressed as suggested by Plaintiff, then the parties should have said what was allegedly meant. This Court can only interpret what they did agree to in the consent decree.

In view of projected discovery, this Court would have no objection if Plaintiff desires to appeal from the instant ruling. Plaintiff may insert appropriate language to its proposed order.

COMPLAINT

UNITED STATES DISCTIRCT COURT
SOUTHERN DISTRICT OF NEW YORK

WALLACE CLARK & COMPANY, INC.,

Plaintiff,

-against-

ACHESON INDUSTRIES, INC.

Defendant.

COMPLAINT

Plaintiff, Wallace Clark & Company, Inc. (hereinafter Wallace Clark), for its complaint against defendant Acheson Industries, Inc. (hereinafter Acheson) alleges:

FIRST CAUSE OF ACTION

1. Plaintiff, Wallace Clark & Company, Inc., has a principal place of business at 1125 Fifth Avenue, New York, N.Y. American Metaseal Company is a division of plaintiff Wallace Clark.

2. On information and belief, defendant Acheson is a Michigan corporation and has a regular and established place of business and a principal office at 420 Lexington Avenue, New York, N.Y. On information and belief,

defendant is doing business and is licensed to do business in the State of New York.

3. This suit arises out of an actual controversy between the parties as to (1) plaintiff's right to contest the validity of defendant's Letters Patent No. 2,976,257, issued March 21, 1961 for "Re-dispersible Dispersion of Polytetrafluoroethylene" by Harold J. Dawe and Earl L. Youse and (2) Plaintiff's rights as to the License Agreement between the parties (Ex. A annexed), and the Consent Decree (Ex. B annexed) particularly plaintiff's right to terminate, notwithstanding paragraphs 14 and 16 of said license which prohibit termination and paragraph 2b which requires payment of minimum royalties.

4. Notwithstanding the Consent Decree (Ex. B) and said license, Wallace Clark claims, and it is disputed by the defendant Acheson, that Wallace Clark has a right to contest validity, that it has a right to contest issues of infringement, particularly products made other than a 530 identified in said decree and that it has a right to terminate said license agreement.

5. Acheson has brought suit on said license in the County Court, Wayne County, Michigan (copy of Complaint annexed as Ex. C) which has brought into issue the effect of the consent decree (Ex. B) entered by this Court as well as seeking to enforce the minimum royalties provisions.

6. Jurisdiction is conferred on this Court pursuant to the Declaratory Judgment statutes (28 U.S.C. 2201, 2202) providing that in a case of actual controversy within its jurisdiction, any court of the United States may declare the rights and legal relations of interested parties; upon the patent laws of the United States [28 U.S.C. 1338(a)] granting the district courts original jurisdiction of any civil action arising under any act of Congress relating to patents.

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7. Venue is predicated upon 28 U.S.C. 1391 permitting a corporation to be sued in any judicial district in which it is licensed to do business or is doing business, defendant Acheson being licensed or doing business within the State of New York.

8. Plaintiff has the right to and has cancelled said License Agreement.

9. Royalties owing to Plaintiff have been paid in the amount due in the years 1972 and 1973.

10. Plaintiff, Wallace Clark claims and Defendant Acheson disputes, Wallace Clark's right to contest the validity of Plaintiff's patent 2, 976,257.

11. Wallace Clark has a right to allege invalidity as a defense to any suit or claim for royalty payments, notwithstanding the License Agreement, Ex. A, or the Consent Decree, Ex. B.

12. Wallace Clark has a right to allege non-infringement as a defense in any suit or claim for royalty payment and has a right to challenge the valid scope of the claims of 2,976,257, notwithstanding the License Agreement or Consent Decree.

13. That the products which Wallace Clark has been selling from January 1, 1974 do not infringe the patent in suit nor are they covered by the License Agreement and no royalties are due.

14. That the patent suit is invalid and the claims thereof cannot be construed so broadly as to be valid and still cover any of the Defendant's products sold since January 1974.

15. Plaintiff alleges that said patent is not now being infringed or that it has ever been infringed.

16. Plaintiff alleges that said patent has never infringed any claim actually adjudicated on the merits as valid.

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17. That the minimum royalty clause, ¶2 of the License Agreement is a patent misuse since products currently sold by Wallace Clark do not infringe upon ary of the claims of the said patent, and to require royalty payments for products outside the claims is an improper extension of the patent monopoly under the special circumstances here presented, and that such minimum royalties are an undue and illegal extension of the patent monopoly and the license is unenforceable.

SECOND CAUSE OF ACTION

18. The License Agreement has been a violation of §1 of the Sherman Act, Antitrust Laws, 15 U.S.C. §1 and a patent misuse *ab initio* from January 1, 1972 because of the inclusion of clauses 14 and 16 preventing Wallace Clark from terminating the License during the life of the patent.

19. Defendant, Wallace Clark, has paid royalties in 1972 and 1973, after said misuse in the amounts of $4,500 for 1972 and $10,814.91 for 1973, totalling $15,314.91, which amount is due Defendant as a result of said misuse, and violation of 15 U.S.C. §1.

20. That the clause of the License Agreement ¶¶14, 16, to the effect that the Agreement may not be cancelled or terminated by Licensee prior to March 21, 1978, requires the Defendant to pay royalties to March 21, 1978, without regard to infringement or Wallace Clark's right to cancel the license or contest the validity of the claims of the patent, or determine the valid scope of any claims in contesting infringement, each or all in violation of Defendant's rights under *Lear Inc. v. Adkins*, 395 U.S. 653 (1969); that such rights had been recognized at law since 1970 and prior to the License Agreement, Ex. A, which was

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effective January 1, 1972; and that such clause constitutes patent misues *ab initio* to January 1, 1972 and a violation of § 1 of the Sherman Act, Antitrust Laws as an unlawful, unreasonable contract in restraint of trade.

THIRD CAUSE OF ACTION

21. Upon information and belief, said patent is invalid for one or more of the following reasons:

(a) The subject matter of the patented invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by said patentee.

(b) The subject matter of the patented invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country more than one year prior to the date of the application for said patents in the United States;

(c) The subject matter of the patented invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by said patentee;

(d) The patentee did not himself invent the said subject matter;

(e) The differences between said subject matter and the prior art are such that the said subject matter would have been obvious at the time the alleged inventions were made to a person having ordinary skill in the art to which said patent pertains within the meaning of 35 U.S.C. § 103;

(f) The patent does not comply with 35 U.S.C. § 112.

WHEREFORE Plaintiff requests:

1. That it be declared that said License Agreement has

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been terminated and cancelled.

2. That it be declared that Wallace Clark has the right to contest the validity of the patent 2,976,257.

3. That it be declared that Wallace Clark has the right to contest infringement and that Wallace Clark has not infringed said patent, at least since January 1, 1974.

4. That the License Agreement is unenforceable because of misuse.

5. That relief be granted to Plaintiff Wallace Clark in the amount of $15,314.91, trebled, plus costs, attorney fees for Defendant Acheson's violation of 15 U.S.C. § 1 and for misuse.

6. Such other relief as may be proper.

s/Paul H. Blaustein
PAUL H. BLAUSTEIN
Sandoe, Hopgood & Calimafde
60 East 42nd Street
New York, N.Y. 10017
(212) 986-2480
Attorney for Plaintiff

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AGREEMENT

This agreement to be effective as of January 1, 1972,

BY AND BETWEEN

ACHESON INDUSTRIES, INC.
A corporation of Michigan
having a place of business at
Michigan National Bank Building
Port Huron, Michigan 48060

hereinafter called LICENSOR

AND

WALLACE CLARK & COMPANY LTD.
having a place of business at
445 Park Avenue
New York, N.Y. 10022
and its related divisional companies
AMERICAN METASEAL COMPANY
18255 Weaver Avenue
Detroit, Michigan 48228 and
AMERICAN METASEAL COMPANY
509 Washington Avenue
Carlstadt, New Jersey 07072

hereinafter called LICENSEE

WITNESSETH:

WHEREAS, LICENSOR is the owner of the following United States Letters Patent relating to certain dispersion

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compositions hereinafter referred to as "LICENSED PRODUCTS":

U.S. Patent No. 2,976,257
Issue Date March 21, 1961
Title Re-Dispersible Dispersion of Polytetrafluoroethylene

WHEREAS, LICENSOR is engaged in the manufacture and sale of products governed by said letters patent;

WHEREAS, LICENSEE desires a limited, non-exclusive license, as defined hereinafter, to manufacture, use and sell such LICENSED PRODUCTS and LICENSOR is desirous of licensing LICENSEE for the manufacture, use and sale of such LICENSED PRODUCTS;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained it is agreed by and between the parties hereto as follows:

1. LICENSOR hereby grants to LICENSEE a limited, non-exclusive right and license under the claims of the aforesaid United States Letters Patent, to manufacture, use and sell said LICENSED PRODUCTS.

2. LICENSEE agrees to pay to LICENSOR:

(a) A running royalty of five percent (5%) on: (i) the net selling price of all sales by LICENSEE of LICENSED PRODUCTS to third parties; and, (ii) the market value of LICENSED PRODUCTS used or applied internally within LICENSEE'S own facilities calculated based on LICENSEE'S average prevailing external market net selling price as determined by a mutually agreed upon public accounting firm (such as Ernst & Ernst or other mutually agreed upon firm).

(b) A fixed yearly minimum royalty according to the following schedule:

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For the calendar year 1972	$4,500.00
For the calendar year 1973 —	$6,250.00
For the calendar year 1974 and each calendar year thereafter—	$7,500.00

Said fixed yearly minimum royalty shall be credited against the running royalties due under Paragraph 2(a).

3. LICENSEE agrees to make payment of the fixed minimum royalties quarterly in advance on the first day of January, Apri. July, and October, beginning as of January 1, 1972; and the running five percent (5%) royalty in excess of the fixed royalty for any calendar quarter shall be payable quarterly in arrears within thirty (30) days following the end of each calendar quarter.

4. LICENSEE shall keep proper books of account showing manufacture, sales and/or usage of the LICENSED PRODUCTS under this agreement and LICENSEE agrees to report in writing to LICENSOR by the thirtieth (30th) day of the month following each calendar quarter the total dollar sales of LICENSED PRODUCTS sold by it during the preceding calendar quarter and the value of internal usage of the LICENSED PRODUCTS by LICENSEE calculated on the basis of the LICENSEE average prevailing external market net selling price applied to determine royalties due for the LICENSED PRODUCTS used internally by LICENSEE. The written report by LICENSEE to LICENSOR following each calendar quarter shall be the basis for computing the running royalty referred to in Paragraph No. 2(a) above, subject to adjustment following the year-end audit by the mutually agreed upon public accounting firm as LICENSEE'S expense of what external prevailing net selling price should be assigned to internal usage of the LICENSED PRODUCTS by LICENSEE.

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5. Within thirty (30) days following each calendar quarter, LICENSEE will submit said written report giving the total dollar sales and usage of LICENSED PRODUCTS subject to royalty under this agreement for the calendar quarter being reported and will accompany such quarterly report with payemnt of the royalty then due.

6. The LICENSED PRODUCTS shall be considered sold when billed out, or if not billed out when delivered, used, or paid for before delivery.

7. LICENSOR shall have access to the books and records of LICENSEE at all reasonable times to check the amount of sales or usage of LICENSED PRODUCTS hereunder by LICENSEE from time to time, provided however, that LICENSEE may at its election and expense substitute for LICENSOR'S examination a certificate of a mutually agreed upon firm of certified public accountants as to the amount of said sales or usage of LICENSED PRODUCTS and as to any other figures that will determine the amount of royalties payable thereon. LICENSOR will not require an examination or such certified statement more often than once a year.

8. LICENSEE agrees that LICENSED PRODUCTS used or sold by LICENSEE and labels and literature of the LICENSEE which refer to the LICENSED PRODUCTS, shall bear a clear reference to the U.S. Letters Patent licensed hereunder in a form acceptable to the LICENSOR. LICENSEE agrees that it will not use or refer to LICENSOR'S name in connection with LICENSEE'S use or sale of the LICENSED PRODUCTS. The marking used by the Licensee shall be generally as follows:

"Licensed under U.S. Patent 2,976,257"

due from LICENSEE to LICENSOR as of January 1, 1972, April 1, 1972, and July 1, 1972, will be payable by

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LICENSEE to LICENSOR upon the execution of this agreement in the amount of thirty-three hundred seventy-five dollars ($3,375.00).

10. In the event that LICENSEE fails to comply with the terms of reports and royalty payments specified herein and so often as the same shall happen, or breaches any other material provisions of this agreement, LICENSOR may at its option, by giving sixty (60) days notice in writing, specifying the breach complained of, terminate this agreement and the license granted hereby, provided however, that, if the breach complained of shall be corrected by LICENSEE within thirty (30) days after the mailing of said notice then this agreement shall remain in full force and effect.

11. LICENSEE and LICENSOR hereby agree that said written reports (per Paragraphs 4 and 5) concerning sales and usage of LICENSED PRODUCTS will report sales and usage of LICENSEE'S Products No. 530 and No. 730 and LICENSED PRODUCTS in combined amounts; and, that when the first instance occurs of these combined amounts requiring a royalty payment in excess of the required yearly minimum royalty [under Paragraph 2(b)], then LICENSEE agrees that at that time it will disclose the recipe of its Product No. 730 (Meta-Tef 730) to LICENSOR'S counsel, Harness, Dickey & Pierce, on a lawyer confidential basis.

12. Notice as herein provided shall be in writing and shall mean the placing of the notice in the mails, registered-return, postage prepaid to the party being notified at the address above given or at such other address designated by the parties hereto, or by otherwise delivering to the other party such notice.

13. The license herein granted is non-transferable without the prior written consent of LICENSOR first had

and obtained, which shall not be unreasonably withheld, and this agreement shall be binding upon and inure to the benefit of any such approved transferee of LICENSEE and the successors and assigns of LICENSOR. The license herein granted may be assigned by LICENSEE without LICENSOR'S consent to any company which shall succeed to substantially all of its business and property and to all companies now or hereafter owned or controlled by said LICENSEE or its successor or assigns.

14. Unless previously terminated in accordance with the terms hereof this agreement and the license herein granted shall extend for the full term of the United States Letters Patent 2,976,257 and shall terminate at the expiration of said Patent No. 2,976,257 on March 21, 1978.

15. That in the event LICENSEE becomes insolvent or executes an assignment for the benefit of creditors or files a petition in bankruptcy or has a petition in bankruptcy filed against it, LICENSOR may terminate this agreement by giving notice thereof to LICENSEE.

16. This agreement may not be canceled by LICENSEE prior to March 21, 1978.

17. Promptly following the execution of this agreement the LICENSEE and LICENSOR agree to secure the dismissal of Civil Action No. 71-5655 in the United States District Court for the Southern District of New York in accordance with the terms of the attached Appendix A dismissal document.

18. It is agreed that this license grants LICENSEE no rights to LICENSOR'S know-how, trademarks, or any other of LICENSOR'S property rights than those specified hereinabove.

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19. This agreement shall be construed under the laws of the State of Michigan.

Signed at this day of July, 1972.

WALLACE CLARK & COMPANY LTD.,
By s/John H. Stooker
Its President

ATTEST:
a/Kathryn A. Yurnans

AMERICAN METASEAL COMPANY

Signed at Port Huron, Michigan, this 13th day of September, 1972.

ACHESON INDUSTRIES, INC.
By s/
Its Secretary & Treasurer

STATE OF NEW YORK
COUNTY OF NEW YORK, ss.:

On this 14th day of August, 1972 before me personally came JOHN HOYT STOOKEY, to me known, who being by me duly sworn, did depose and say that he is Chairman of the Board of WALLACE CLARK & COMPANY LTD., the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to the said instrument is such corporate seal, and that it was so affixed thereto by order of the Board of Direçtors or said corporation and that he signed his name thereto by like order.

s/Kathryn A. Yes.ans
Notary Public

STATE OF MICHIGAN
COUNTY OF ST. CLAIR , ss.:

On this 13th day of September, 1972, before me personally came Donald L. Keith, to me known, who being by me duly sworn, did depose and say that he is Sec. and Treas. of ACHESON INDUSTRIES, INC., the corporation described in and which executed the same instrument; that he knows the seal of said corporation; that the seal affixed to the said instrument is such corporate seal, and that it was so affixed thereto by order of the Board of Directors of said corporation and that he signed his name thereto by like order.

s/Robert S. Lapp
Notary Public

(SAME TITLE)

EXHIBIT "B" TO COMPLAINT

CONSENT DECREE

As between the parties, by their counsel stipulating hereto, and the Court being fully advised in the matter, it is hereby ordered and decreed as follows:

1. United States Letters Patent 2,976,257 in suit is valid and is infringed by plaintiff's manufacture, use and sale of its product Meta-Tef 530.

2. The plaintiff having taken a license under defendant's United States Letters Patent 2,976,257, the above-entitled action is hereby dismissed, with each party to bear its own costs and attorney fees.

3. This decree may not be cited as an adjudication of contested issues, nor be used for advertising purposes.

Dated: October 6, 1972

John M. Cannella
United States District Judge

STIPULATION

Entry of the foregoing Consent Decree is hereby approved and stipulated to by the parties.

WALLACE CLARK & COMPANY LTD.,
Plaintiff
by s/John Hoyt Stookey

SANDOE, HOPGOOD & CALIMAFDE
By s/Paul Blaustein
Attorney for Plaintiff

ACHESON INDUSTRIES, INC.
Defendant
By s/Donald L. Keith
Secretary & Treas.

PENNIE, EDMONDS, MORTON, TAYLOR AND ADAMS
By s/James M. Foley
Attorney for Defendant

EXHIBIT "C"
COMPLAINT

IN THE CIRCUIT COURT
FOR THE COUNTY OF WAYNE
STATE OF MICHIGAN

ACHESON INDUSTRIES, INC.
a corporation of Michigan,

Plaintiff,

v.

WALLACE CLARK & CO., LTD.
a corporation of New York,

Defendant.

BENJAMIN D. BURDICK P. 11392

Civil Action No. 74-012650 - CK

Michael Dinnin (P 12801)
Attorney for Plaintiff

COMPLAINT

1. This is an action for breach of contract and for an accounting.

2. Plaintiff, Acheson Industries, Inc., (hereinafter sometimes referred to as "ACHESON") is a Michigan

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corporation, having a place of business at 19675 West Ten Mile Road, Southfield, Michigan.

3. Defendant, WALLACE CLARK & COMPANY, LTD. (hereinafter sometimes referred to as "WALLACE CLARK") is a New York Corporation, having its principal place of business at 445 Park Avenue, New York, New York, and is licensed to do business in Michigan having as its registered agent for service The Corporation Company, 615 Griswold, Detroit, Michigan. Defendant also has a division named American Metaseal company of Detroit which division has a place of business at 18255 Weaver Avenue, Detroit, Michigan and upon information and belief is a wholly owned division of Defendant.

4. On or about September 13, 1972, Plaintiff ACHESON, the owner of the entire right, title and interest in and to United States Letters Patent No. 2,976,257 (hereinafter sometimes referred to as the "Licensed Patent"), entered into a written Agreement (Exhibit A herewith) with Defendant WALLACE CLARK under which Plaintiff ACHESON granted to Defendant WALLACE CLARK a non-exclusive license to make, use and sell patented coating compositions throughout the United States, its territories and possessions for the remaining life of said Licensed Patent. Said Agreement was in consideration of a fixed yearly minimum royalty payment from WALLACE CLARK to ACHESON for the calendar year 1972 and each calendar year thereafter until the expiration of the Licensed Patent. For the calendar year 1974 and each year thereafter the fixed minimum payment is in the amount of seventy-five hundred dollars ($7,500.00). Said Agreement was also in consideration of a royalty in the sum of five per cent (5%) of the selling price by WALLACE CLARK of all coating compositions set forth in said Licensed Patent.

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5. The aforesaid Agreement was negotiated in settlement of an action involving patent infringement in the United States District Court for the Southern District of New York, Civil Action No. 71-5655, and one of the specific conditions of said Agreement provided for the entry of a final judgment by Consent Decree (Exhibit B herewith) in said action declaring said Licensed Patent to be valid in law, and infringed, as between Plaintiff and Defendant.

6. Plaintiff ACHESON has duly performed all of the obligations required by it to be performed under said Agreement, and said Agreement has been and continues to be in full force and effect.

7. Defendant WALLACE CLARK and its division American Metaseal has manufactured, used or sold the said licensed coating compositions (under its product names Meta-Tef 530 and Meta-Tef 730) but since January 1, 1974 and continuing to date, Defendant has breached the terms of said Agreement by refusing and failing to account for and make payments of said fixed minimum royalties, which fall due for payment on a quarterly basis in advance on the first day of January, April, July and October, with one-fourth (1/4) of the yearly minimum payment being due on each of said days in accordance with the terms of said Agreement.

8. Defendant upon information and belief is also manufacturing, using or selling a recently formulated one package resin binder-fluorocarbon particle containing coating composition while refusing and failing to account for and make payments of royalties thereon. Defendant has also breached the terms of said Agreement by failing to submit required written royalty reports and by failing to submit formulation recipe information to Plaintiff as required in the Agreement.

WHEREFORE, Plaintiff demands judgment as follows:

A. That Defendant be adjudged liable to Plaintiff in the amount of all royalties past due and owing under said Agreement to date of judgment, together with interest from each respective due date, including any royalties and interest due by reason of sales or usage of said one package coating composition manufactured, used or sold by Defendant.

B. That Defendant be required to pay to, and be adjudged liable to Plaintiff for the present worth of all the remaining yearly fixed minimum payments up to the expiration of the patent on March 21, 1978, in the approximate amount of $27,893.84, as well as the already past due fixed minimum payments in the amount of $3,750.00, for a total of $31,643.84.

C. That the Defendant be required to account to Plaintiff as to the quantities of coating compositions manufactured, used or sold by it, under said Agreement and to provide all such information as is needed to compute the exact amount of royalties past due and owing together with interest under said Agreement.

D. That Defendant be adjudged liable to Plaintiff for all of Plaintiff's costs, attorneys fees, and disbursements of this action, and

E. That such other relief be awarded to Plaintiff as is equitable and just.

ACHESON INDUSTRIES, INC.

By s/Michael Dinnin, Jr.
HARNESS, DICKEY & PIERCE
1500 North Woodward
Birmingham, Michigan 48011
Phone: 642-7000
Attorneys for Plaintiff

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